Jan. 1960

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BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS JAN. 9, 1960

THE STEEL SETTLEMENT

- What it means for prices and production (page 25)
- How it was arranged (page 27)
- The new contract terms (page 77)

in BUSINESS this WEEK *January 9, 1960*

GENERAL BUSINESS

THE DEPARTMENTS

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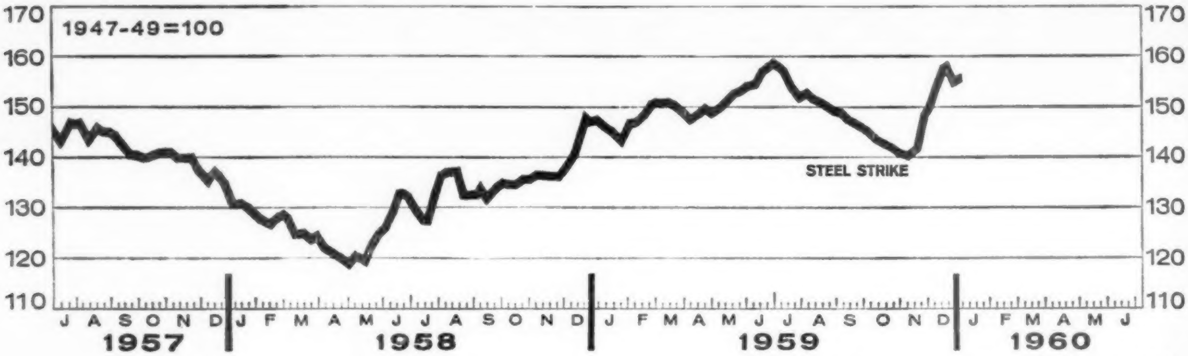
NUMBER 1584

FIGURES of the WEEK



	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**133.3**	**148.5**	**155.1**	**156.0**r	**156.6***
PRODUCTION					
Steel ingot (thous. of tons)	2,032	2,085	2,732	2,726r	**2,707**
Automobiles	125,553	97,664	55,337	103,219r	**111,574**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$52,412	$58,779	$62,563	$52,460	**$52,013**
Electric power (millions of kilowatt-hours)	10,819	12,364	13,907	13,349r	**13,425**
Crude oil and condensate (daily av., thous. of bbl.)	6,536	7,122	7,027	7,109	**7,068**
Bituminous coal (daily av., thous. of tons)	1,455	1,403	1,600	1,564r	**1,370**
Paperboard (tons)	247,488	‡	295,929	251,626	**138,521****
TRADE					
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	70	56	59	60	**56**
Carloadings: all others (daily av., thous. of cars)	47	45	46	42	**38**
Department store sales index (1947-49 = 100, not seasonally adjusted)	121	205	176	318	**246**
Business failures (Dun & Bradstreet, number)	198	169	261	195	**226**
PRICES					
Industrial raw materials, daily index (BLS, 1947-49 = 100)	89.2	89.2	93.8	93.2r	**93.4**
Foodstuffs, daily index (BLS, 1947-49 = 100)	90.5	80.3	72.8	70.3r	**70.8**
Print cloth (spot and nearby, yd.)	19.8¢	18.2¢	22.7¢	23.0¢	**23.0¢**
Finished steel, index (BLS, 1947-49 = 100)	143.9	186.9	186.8	186.8	**186.8**
Scrap steel composite (Iron Age, ton)	$36.10	$40.17	$42.50	$41.17	**$41.50**
Copper (electrolytic, delivered price, E & MJ, lb.)	32.394¢	29.000¢	33.745¢	34.388¢	**34.113¢**
Aluminum, primary pig (U. S. del., E&MJ, lb.)	20.6¢	24.7¢	24.7¢	26.0¢	**26.0¢**
Aluminum, secondary alloy #380, 1% zinc (U. S. del., E&MJ, lb.)	‡	21.77¢	23.76¢	24.91¢	**25.02¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$2.34	$1.95	$2.06	$2.05	**$2.09**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	34.57¢	34.35¢	31.69¢	31.85¢r	**31.88¢**
Wool tops (Boston, lb.)	$1.96	$1.65	$1.88	$1.86	**$1.86**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	31.64	55.40	58.97	59.26r	**60.08**
Medium grade corporate bond yield (Baa issues, Moody's)	3.59%	4.86%	5.24%	5.31%r	**5.32%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	2–2⅛%	3⅜%	4⅞%	4⅞%	**4⅞%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	‡	63,507	61,017	62,482r	**63,265**
Total loans and investments, reporting member banks	‡	104,715	104,253	104,935r	**105,398**
Commercial, industrial, and agricultural loans, reporting member banks	‡	32,532	30,928	31,407r	**31,416**
U. S. gov't guaranteed obligations held, reporting member banks	‡	34,627	28,164	27,496r	**27,467**
Total federal reserve credit outstanding	26,424	28,910	28,867	29,883r	**29,629**

MONTHLY FIGURES OF THE WEEK

		1953-55 Average	Year Ago	Month Ago	Latest Month
Private expenditures for new construction (in millions)	**December**	$2,390	$2,900	$3,318	**$3,108**
Public expenditures for new construction (in millions)	**December**	$980	$1,209	$1,117	**$1,008**
Consumer credit outstanding (in billions)	**November**	$34.1	$44.0	$49.9	**$50.4**
Installment credit outstanding (in billions)	**November**	$24.2	$33.3	$38.4	**$38.7**
Manufactuer's inventories (seasonally adjusted, in billions)	**November**	45.2	$49.3	$51.5	**$51.9**
Wholesalers' inventories (seasonally adjusted, in billions)	**November**	10.6	$12.1	$12.5	**$12.6**
Retailers' inventories (seasonally adjusted, in billions)	**November**	$21.4	$23.6	$24.7	**$24.2**
Imports (in millions)	**November**	$902	$1,089	$1,205	**$1,283**

* *Preliminary, week ended January 2, 1960.* r *Revised.*
** *Includes only five working days instead of usual six days.*
‡ *Not available.*
§ *Date for 'Latest Week' on each series on request.*

THE PICTURES—Cover—WW; 25—(lt.) WW, (rt.) Joan Sydlow; 27—WW; 30—(lt.) WW, (rt.) UPI; 31—(lt.) WW, (rt.) UPI; 33—Allan Gould; 36, 38—Herb Kratovil; 44—Bekins Van & Storage Co.; 46, 47, 48, 50, 55—Mac Conner; 56, 57—(top) Grant Compton, (bot. two rows) Armco Steel Corp.; 69—UPI; 77—WW; 90—(top) Parke, Davis & Co., (bot. two) Gene Pyle; 91, 93—Gene Pyle.

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READERS REPORT

Boston vs. Springfield

Dear Sir:

It was with a great deal of pleasure that I read your article on Springfield, Vt. [BW—Dec.19'59, p80]. This fall, we were a member in the group that purchased the sewage treatment bonds. . . .

One cannot help but be impressed with the realistic view of this unique town. They have no native resources yet they persist in being a dominant factor in the American machine tool industry.

I thought it might be interesting to compare Springfield to the city mentioned in the following article —Boston, Mass. I am happy to say that Springfield, lacking almost entirely in raison d'etre, except for Yankee stubbornness was accorded a Moody's Aa rating—only one rung below the top level. Yet, Boston, with its large population, its fine harbor, magnificent airport, insurance companies, large capital resources, etc., etc., is dropped to Baa by Moody's.

Springfield and its citizens have the knack of looking at reality and realizing their limitations. I am afraid that Boston, its politicians and its citizens, ignore its limitations, and milk its resources.

Congratulations on two splendid articles.

DOUGLAS C. LYONS
LYONS & SHAFTO INC.
HARTFORD, CONN.

American Perfume

Dear Sir:

I am sure your article on Perfume for Christmas Giving, in the Personal Business section [BW—Dec.12'59,p137] will earn hearty applause from the fragrance industry and from the fortunate ladies who received this most welcome gift. . . . However, I must take issue with your final recommendation ". . . to keep on the right track, stick to name brands of French or possibly Italian perfumes."

In speaking on this matter, our company can be completely objective since we are one of the world's large producers of perfume materials with plants in 16 countries including France, Italy, and the U. S. A. Actually the creation of a fine fragrance, as in any other art or highly developed craft, knows no geographic boundary. . . .

There are, of course, many well-known and highly thought of brands of American perfumes, and as a

matter of fact, you mentioned a few of them in your story. To overlook so many fine products of American creativity in your recommendation does a considerable injustice to our industry here. . . .

C. P. WALKER
PRESIDENT
INTERNATIONAL FLAVORS & FRAGRANCES INC.
NEW YORK, N. Y.

Not Tinkly

Dear Sir:

BUSINESS WEEK has done another service by calling attention to the growing interest in Baroque and Elizabethan music in the Personal Business column [BW—Dec. 5'59,p137]. However, the report in BW needs slight correction as well as amplification. . . .

I must take issue with the description of Elizabethan and Baroque music as "tinkly." Perhaps your editor was confusing his metaphors, thinking that one "tinkled" the ivories of the harpsichord. This music is far from tinkly. Instead it has a lilt and purity of tone that is at once soothing and delightful.

If the term "tinkly" was meant to apply to the harpsicord only—not music of the period—again I feel it was an unfortunate description. As stated, the harpsichord is plucked not struck like a piano. And a plucked string has a much different musical quality than emitted by two glasses struck together. . . .

WILLIS A. BUSSARD
PRINCETON, N. J.

Zero Missing

Dear Sir:

The In Business section [BW—Dec.12'59,p38] carried a story about Chance Vought Aircraft's entry into the mobile home industry.

The . . . story stated: "The company set up a subsidiary, Vought Industries, which bought General Coach Works . . . and ABC Coach Co. . . . Chance Vought says these deals, plus an agreement to buy Mid States Corp. . . . will make it the leading U.S. maker of house trailers, with annual sales around \$6-million."

. . . Combined sales of General Coach, ABC, and Mid States for 1959 are estimated at more than \$60-million, not \$6-million.

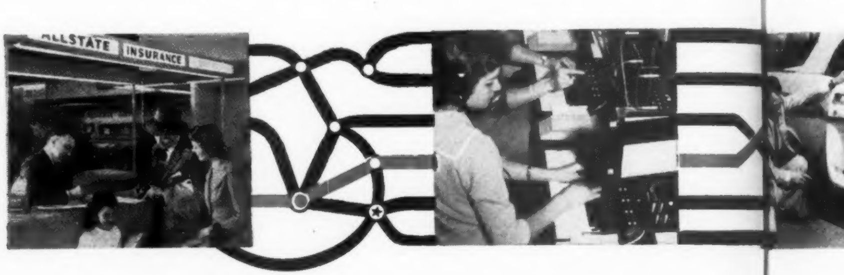
KEITH BAKER
VOUGHT INDUSTRIES, INC.
DALLAS, TEX.


BAKER STS.

A Statement from Allstate Insurance Company:

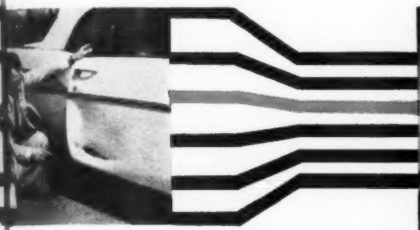
"We bought our first Burroughs computer in 1954, now own seven, and have more on order... these are big reasons why Allstate will continue to offer speedier customer service at low cost."

JUDSON B. BRANCH, *President of Allstate Insurance Companies*



James A. Reynolds, Vice-President of Allstate's Services Department (left) confers with Allstate's President, Judson B. Branch.

Back in 1930, the Sears Board of Directors considered the idea of applying Sears business methods to the sale of automobile insurance. They felt that by selling direct to the public, and keeping operating costs low, quality insurance protection could be sold at low rates. And by keeping customers satisfied through fast, fair service, they hoped to build and maintain a volume of insurance business that would make the low-overhead methods pay off. They settled on the name "Allstate" for



the new company, and opened the first office in a Sears store in Chicago in 1931.

Since that time Allstate has had a dramatic rise in the insurance industry and has pioneered many new and more efficient ways of doing business.

In its first year, Allstate took in $118,000 in premiums through advertising in the Sears Mail-Order Catalog. In 1958, Allstate's volume had skyrocketed to a whopping $376,000,000. Today, Allstate is one of the world's largest stock companies offering insurance of almost every major kind. The company recently added accident and sickness insurance, and boat-owners insurance. Its comparatively new commercial insurance lines are booming. Allstate Life Insurance Company, a recently-formed subsidiary, already has over a billion dollars of insurance in force.

Allstate operates a vast network of zone, regional and district service offices in the United States and Canada, with foreign expansion now under way in Switzerland. At the present time there are more than 1,300 sales and service locations with more than 5,000,000 policies in force. One of the big reasons behind Allstate's growth is its dedication to customer service through fast, fair claim settlement, prompt response to inquiries, and lower premium costs. A powerful tool in aiding the company to provide swifter and better service is its use of Burroughs electronic data processing systems.

After a careful analysis of their needs, Allstate purchased a Burroughs

Allstate's Assistant Vice-President and Head of Research, L. L. van Oosten.

205 Computer, with magnetic tape equipment, in 1954. With the many complexities of insurance rating, endorsements, billing and coding, Allstate found the computer extremely useful in "cutting red tape" and speeding up policyholder service. More and more policyholders discovered that the protection they purchased through their Allstate policy was delivered promptly because the time consuming annoyance of manual handling was now replaced with electronic methods. Allstate also used the computer for statistical and management reports assembled in a fraction of the time formerly required.

In 1957 and 1958 Allstate purchased three more Burroughs 205's and used them for billing, accounts receivable, rating policy issuances, and endorsements. When Burroughs announced its large 220 System, with expandable core memory, Allstate purchased three of these and had them installed in 1959. More 220's are scheduled for installation this year.

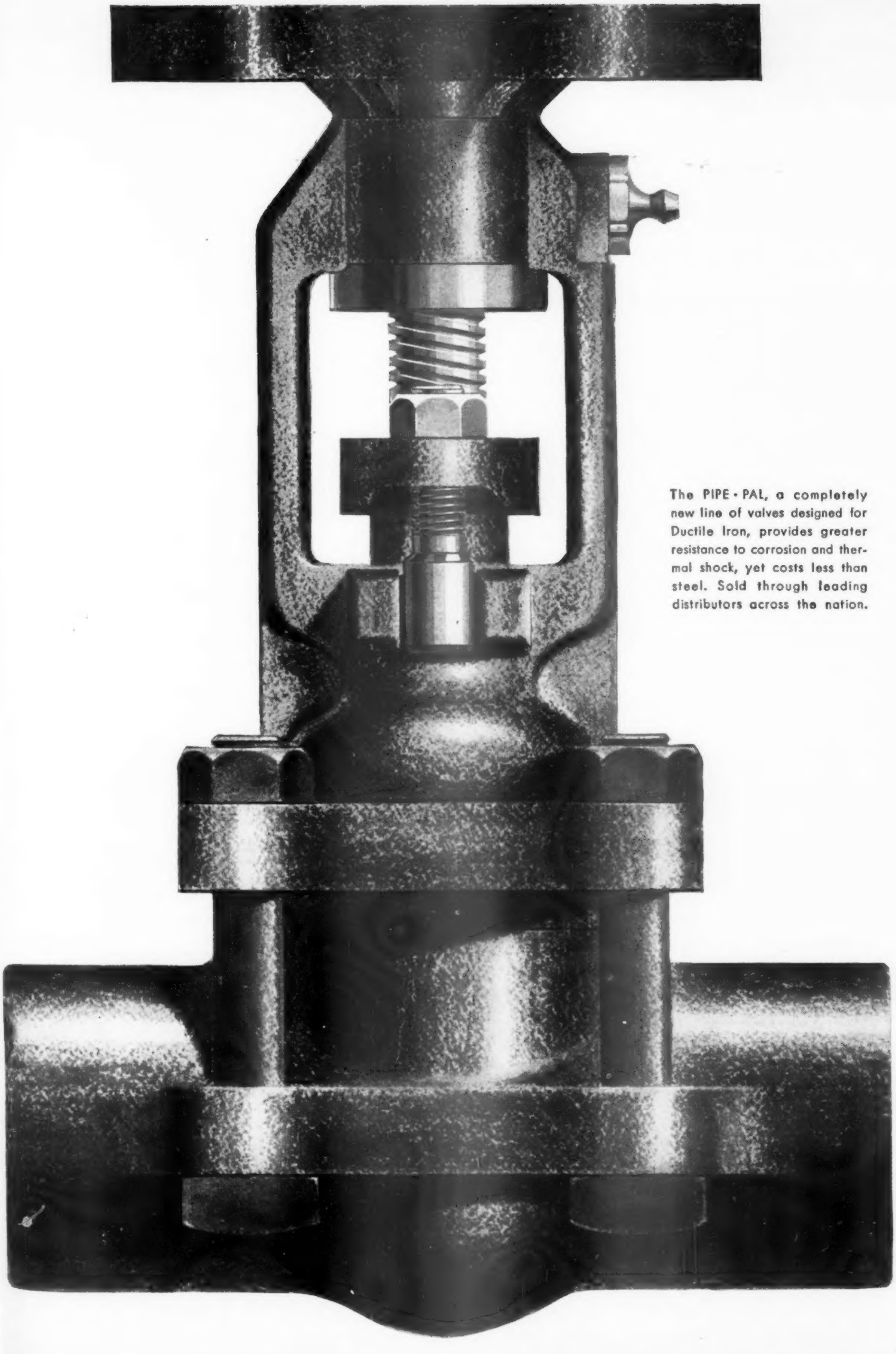
In speaking of the over-all benefits to Allstate from its use of Burroughs Computers, Mr. Judson B. Branch, Allstate's President, said, "Primarily, we've been able to give our customers faster, more efficient service at much lower costs. The computers help us to 'cut red tape' and thereby speed our service and help us provide insurance at lower rates. They also provide us with a means of absorbing our substantial growth without a corresponding increase in our operating expenses. We've had other benefits, too. By developing vitally needed statistics, our computers have made available, on a regular reports basis, valuable up-to-date information for our management. In addition, they enable us to promote many of our present employes to positions of greater importance, productivity and interest."

In a company where efficient business methods have been a key factor in providing better service at lower rates, the cold eye of economic justification is constantly focused on its Burroughs equipment. A continual assessment and appraisal of its electronic data processing program has been made over the last five years.

As a result of its analysis, Allstate is not turning back, but relying on Burroughs for a continuation and expansion of its electronic data processing program.

There are hundreds of other commercial and industrial users doing the same. Burroughs' complete line of electronic computers is backed by a coast-to-coast team of computer specialists, all prepared to tell you how Burroughs can help you in your business. For additional information, write ElectroData Division, Pasadena, California.

Burroughs Corporation *"NEW DIMENSIONS/in electronics and data processing systems"*



The PIPE • PAL, a completely new line of valves designed for Ductile Iron, provides greater resistance to corrosion and thermal shock, yet costs less than steel. Sold through leading distributors across the nation.

HAULS OF

For 12 years the tonnage went UP, UP, UP

and down, down went haulage costs for Chilean Exploration Co. This belt became a record breaker when it completed conveying the amazing total of 100 million tons of abrasive copper ore. Then it went on to surpass this figure, conveying a total of 130,-886,134 tons at an average cost of \$.00037 per ton.

Not only did this belt resist the extreme abrasive action of copper ore—it was completely unhoused and exposed to the blistering rays of the sun all year round.

THESE BELTS are just some of the "U.S." standouts which demonstrate, year after year, why "U.S." is the world's foremost authority on the design and production of conveyor belts.

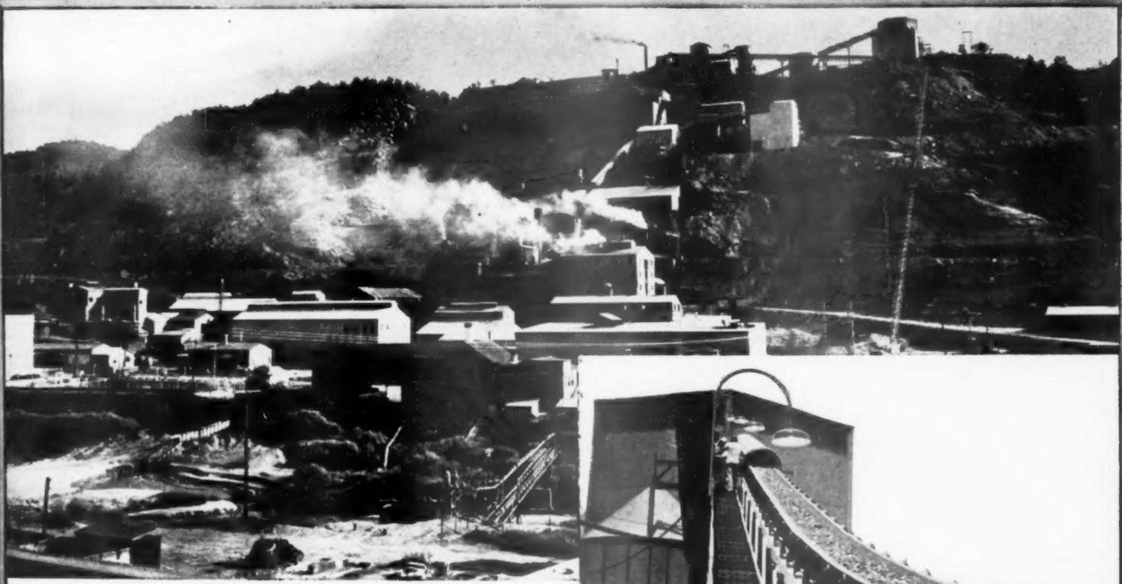
For steady day-in-and-day-out dependability on conveyor belting, it always pays you to secure the advantages of "U.S." Engineering. "U.S." Engineers work directly with "U.S." Distributors or original equipment manufacturers to assure their obtaining the right belt for each type of conveying.

The most comprehensive belting engineering information in the industry is available through your "U.S." Distributor. It will pay you to check with him.

GIANT of the CARIBBEAN

The Reynolds Metals Co., in Jamaica, B.W.I., moves a million and a half tons of bauxite a year from back up in the hills to port-loading facilities. It's a tough, complicated job. Climate, rough terrain, abrasion, great distances — all have to be overcome. Dozens of "U. S." Belts move the bauxite underground and overland . . . first as cold, sticky, abrasive, run-of-mine ore, later as crushed fines right from red-hot drying kilns. These "U. S." Belts have been performing perfectly in this uninterrupted service.

FAME



LARGE URANIUM PRODUCER picks dozens of "U.S." Belts for a dozen different uses

Union Carbide's plant at Uraven, Colorado, one of the nation's biggest uranium processing plants, operates on a 3-shift, 7-day-a-week basis. U.S. Rubber Conveyor Belts play a vital part in its operation.

This has been true from the very start of the operation. For example, when a large addition to the plant was completed, U.S. Rubber supplied 16 new conveyor belts. With this addition, more than three dozen "U.S." Belts now help carry the vital tonnage through the various phases of uranium processing.

One U.S. Giant® belt handling hot materials has *outlasted previous belts four to five times.*

Mechanical Goods Division

United States Rubber

WORLD'S LARGEST MANUFACTURER OF INDUSTRIAL RUBBER PRODUCTS

Rockefeller Center, New York 20, N.Y. In Canada: Dominion Rubber Company, Ltd.

"I hope their product

Six Steps To Successful Selling...

1 Make Contact **2** Arouse Interest **3** Create Preferenc

METALOGICS

...the Ryerson science of giving optimum value for every purchasing dollar.

RYERSON PLUS VALUES

...how it works for you

Broadens Scope of Selection

Know a single source where you can get aircraft-quality alloys such as 9310, Nitralloy, and 4340 to A.R.T.C.-14 . . . as well as all standard commercial alloys and free-machining types? This is typical of the size and diversity of Ryerson stocks. Here, right at the tip of your dialing finger, are thousands of tons of steel and aluminum—in virtually every standard type, size and shape. Also, hard-to-get intermediate sizes and special analyses are readily available. This is true of Ryerson stocks, year in and year out—in all but periods of extended production shutdowns.

Brings Newest Developments

Remember when lead was first added to carbon steels for faster machining...when, a little later, leaded alloys came along? Ryerson stocked them for you first. And remember just recently when the world's fastest machining steel tubing and bars (Ledloy® 170 tubing and Ledloy 375 bars) were introduced? Again, Ryerson brought them to you first.

Gives New Measure of Quality

Quality—now there's a word that's worn thinner than an office-seeker's shoe sole. But Ryerson Metalogics has given it new meaning, with a brand-new set of rigid quality-control standards that are completely detailed and published for your scrutiny. They govern every aspect of specifications, verification, packaging, cutting and certification of all Ryerson products. If you want a tangible example of the scope of this new quality program, take a good look at Ryerson cutting tolerances. Then see if you can find any that are held more closely.

Provides Best Technical Help

"Expert" is another worn-out word we hesitate to use. But we do put at your disposal the industry's most experienced men. They're ready to give you the benefit of their nationwide, daily experience with all kinds of problems—material selection, fabrication and the ever-present specter "cost of possession." And remember, nowhere else will you find as wide a range of published technical information to help you in your metalworking operations. It's yours for the asking.

Builds Solid Business Relationship

Here's a company you should get to know better for our primary business is that of satisfying customers. And we've kept a lot of people satisfied over the last 100 years. We'd like to satisfy you, too.

Meets Your Most Exacting Schedules

What do you need right now . . . tomorrow . . . or in the future? Whatever you need, Ryerson is there—"the fastest with the mostest"—exactly when you need it—as you need it.

Why not discuss the exciting story of Metalogics with your Ryerson representative soon. You'll find he can help you in more ways than you might think—to meet all your requirements for steel, aluminum, plastics and metalworking machinery.

Be "METALOGICAL"—call Ryerson

METALOGICS
RYERSON PLUS VALUES

STEEL • ALUMINUM • PLASTICS • METALWORKING MACHINERY

RYERSON STEEL

Joseph T. Ryerson & Son, Inc., Member of the INLAND® Steel Family

PLANT SERVICE CENTERS: BOSTON • BUFFALO • CHARLOTTE • CHICAGO • CINCINNATI • CLEVELAND • DALLAS • DETROIT • HOUSTON • INDIANAPOLIS LOS ANGELES • MILWAUKEE • NEW YORK • PHILADELPHIA • PITTSBURGH • ST. LOUIS • SAN FRANCISCO • SEATTLE • SPOKANE • WALLINGFORD

BUSINESS OUTLOOK

BUSINESS WEEK

JAN. 9, 1960

A BUSINESS WEEK SERVICE

Business need no longer worry about getting past that much-feared obstacle, a resumption of the steel strike.

All those opulent New Year forecasts, you'll recall, discreetly noted, "barring another steel walkout." Now the soothsayers can still conjure up some new hobgoblins, but the big one has been put away.

Positive benefits of the steel settlement unquestionably include:

• Better **operating schedules** due to a smoother, more dependable flow of raw materials and parts;

• Higher **employment** (both in and out of manufacturing) due to rapidly rising levels of factory operations;

• Expanding **personal income** due to (1) new highs for employment, (2) the highest hourly pay on record, and (3) more hours of work per week.

Business will go roaring ahead for at least several months. Of that there can be little doubt.

Take that bellwether industry, **autos.** Even before the steel settlement, Detroit had raised its **first quarter output schedule** to nearly 2.3-million. This implies a peak rate in March of 9½-million cars a year, even allowing fairly liberal time out for model changes.

Auto manufacturers would admit, if you pressed them, that first-quarter plans may be modified in the light of buyer response.

Nevertheless, they're shooting for 690,000 in **January.** If they go ahead as planned, **February** would be about the same (despite holidays and the short month). And **March would have to go to 875,000.**

The old monthly record, set in March, 1955, was 795,000.

—•—

Maybe a boom such as seems to be shaping up means trouble later. If so, it's up to each businessman to keep his own shop in order.

Anyone who sounds a note of caution now must risk being called a crepe hanger or worse. Yet a wave of **inventory accumulation** such as seems certain can easily whip up too much optimism.

Capacity in many lines soon will be sorely taxed. This will lead to a review of expansion plans. When that happens, it should be remembered that **much of the demand is in excess of normal operating needs.**

—•—

Pressures building up under prices, most observers will agree, are increased by the nature of the steel settlement (page 25).

Perhaps basic prices in steel will not go up for a while. The feeling in Pittsburgh now is that high operating rates may postpone an outright advance for several months. Yet nobody doubts that some sales will be made "above the book."

Looking beyond the actual base prices of steel, **the wage settlement does more than just raise one industry's costs.**

It increases the feeling of a seller's market, disappointing those who felt the line might be held with a little luck. Price repercussions, in fact,

may well be heard in the least likely quarters—as, for example, in textiles this week.

No sooner had the steel settlement been announced, than a move to **boost fabrics used in autos** got under way. Obviously, with the steel in sight for record auto output, fabric suppliers took their cue.

Many of the price-raising influences of steel, as they apply to other industries, will hang fire, of course.

This is particularly true as it affects **new wage rates to be negotiated** as the contracts of others come up for reopening. Steel, like it or not, will be setting the 1960 pattern.

And, patterns aside, **few employers will jeopardize their sales in a market like this to fight for an already punctured wage line.**

—•—

Inevitably many eyes now are cast in the direction of the Federal Reserve Board. **What will the Fed do, now that the boom seems surely to be coming and new pressures have been put under prices?**

If you know the board's thinking and its past record, you know the answer: **It will turn the money tap even tighter.**

The board will continue to fight inflation. And it will risk nipping a few points off the top of the boom to help prevent a bust.

Wall Street was busy this week speculating on the timing of the Federal Reserve's next move. At midweek, the best opinion was that **action would wait until next month** due to a number of technical reasons.

That, however, didn't prevent **immediate stiffening in a variety of interest rates.** The big banks raised their charge on loans to brokers and dealers for carrying securities, and the rate on finance companies' commercial paper also was advanced.

Bankers are touchy about hiking the interest they charge their best customers until after the Fed raises its rediscount rate.

However, **the corporate borrower who was rated "prime" at his bank yesterday may find himself not-quite-so-prime today.**

This question of the interest rate (not to mention the availability of bank loans) will be of increasing importance to **those who now face the necessity of borrowing to meet rising business and inventories.**

Bank loans to **metalworking factories** were washed down $250-million as these plants drew on inventories during the steel strike. But, even during December, this trend was sharply reversed.

And the new loans last month hardly represented restocking. It was a lucky plant that got enough steel to meet its rising output needs, much less add to stocks. The loans were mostly to carry receivables.

Normally, at this time of year, demand for bank loans would be going down seasonally. (Retailers would be repaying after the Christmas cleanup, commodity loans would be worked down, and so on.) Look back at big years like 1955 and 1956, and you'll see that there was little seasonal slackening then. **And there will be little in 1960.**

HOW MANY CARD RECORDS DOES YOUR COMPANY HAVE TO COPE *WITH?*

IT MAY BE 15,000... *OR IT MAY* BE 2,500,000 *(AS IN THE CASE* OF THE INSTALLATION *PICTURED)*

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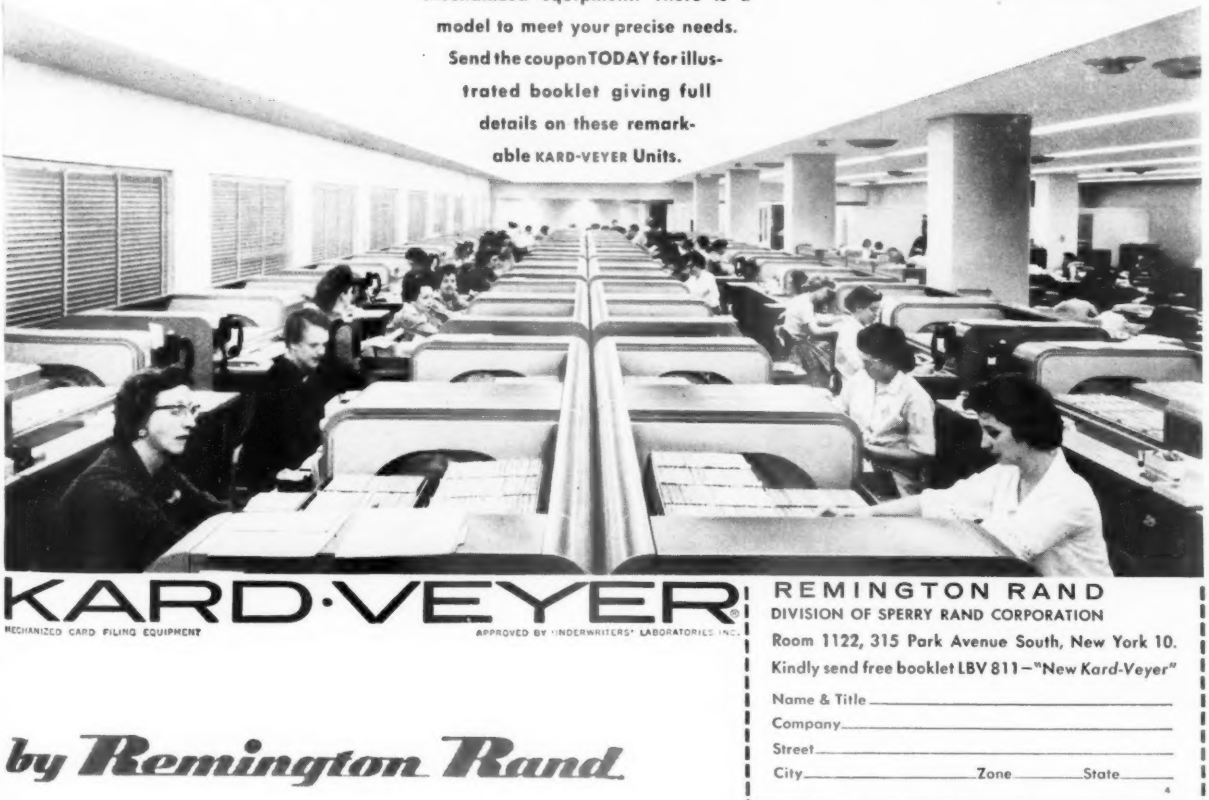

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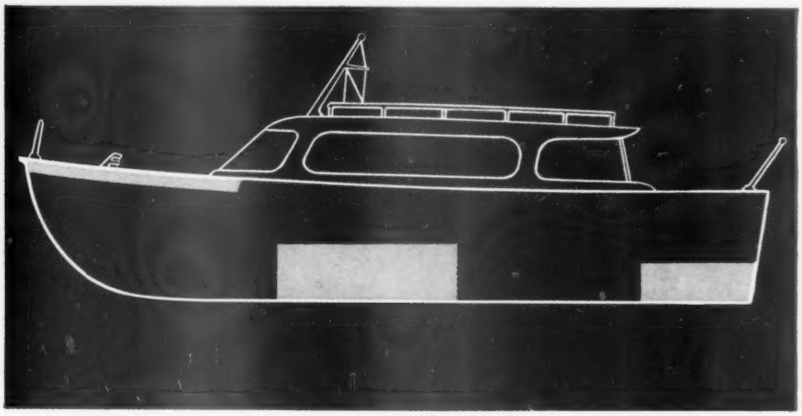


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WEEK

JANUARY 9, 1960

NUMBER 1584

SIGNING of contract by industry's R. Conrad Cooper (with cigar), USW's David McDonald (at his left), and others guarantees steady flow of steel, but . . .

COST to industry is high, as U. S. Steel's Chmn. Roger M. Blough tells television audience.

Steel Now – Bill Still to Come

Settlement means sure steel supply, a boost for business—but uncertainty about when and how much prices will go up.

U. S. industry this week exchanged one unknown for another and wound up with at least a temporary advantage.

This was the net effect of the settlement in steel.

A week ago the signs were getting increasingly ominous that the United Steelworkers would strike again, and that steel shortages would plague business and slow down the economy for the second time in three months. Now the nation has an assured supply of steel for the next 30 months. The prospect is that the mills will produce 130-million tons of steel this year (BW–Dec.19'59,p32) with the biggest share of this in the first half.

In exchange it has lost any long-term hope that steel prices might stay stable.

Still, there's an advantage in the deal: An assured steel supply is more immediately vital than a stable price.

• **Impact on Politics**—This week's settlement was frankly heavy in political significance—inevitably so, in this election year. In the last days of negotiation, public talk focused hard on the impact the settlement will have on the campaigns of Vice-Pres. Richard Nixon and Labor Secy. James Mitchell, as well as half a dozen Democratic senators (page 41). For the roles they played in hastening the new steel contract, turn to page 26.

• . . . **On Labor's Status**—The settlement is also a victory for the unions and a savage whipping for the steel industry. Just about everyone in Pittsburgh chimes in on that. Pittsurgh is ringing like a boiler shop with argument and theorizing about the settlement. But the steelmakers agree that the contract will be perhaps 40% greater in its impact on employment costs than the settlement they sought.

They agree, too, that they won nothing—and undoubtedly dragged themselves toward further losses—by raising the work rules issue. Says one steel executive: "We were winning as long as we negotiated on inflation and foreign competition, but when we brought up work rules we gave McDonald a winning hand and helped him play it."

The settlement not only enhances the power of the USW, which seemed weak this time last year, but subtly changes the tone of labor-management relations throughout industry. Labor as a whole comes out of these negotiations in a stronger position.

• . . . **And on Prices**—Is the settlement inflationary? The industry says "Yes"; the Administration says "Not necessarily"; the USW says "No."

But it's perfectly clear that steel prices will go up.

I. New Price Patterns

By even the most conservative figuring it's apparent that the new contract's 39¢ to 41¢ package over the next 30 months will increase the steel industry's costs by almost as much as the average profit per ton of ingot production. Steelmakers hedge and equivocate, but the net result of their equivocation is: "Of course there'll be a price rise."

Nothing else will allow them to cover the cost of the new contract. Plant improvements and the work rule changes that they may be able to negotiate under the terms of the new con-

tract will not boost productivity enough to cover the extra employment costs. Even adding in the better profit margins that will come from the anticipated high operating rates of the mills will not cover those costs. So steel is certainly going to cost more.

• **How Much?**—How much more is a mystery. Estimates of from $2 to $3 a ton increase are being bandied about this week, but these estimates are meaningless. There's informed speculation that when the increases come they will not follow the traditional pattern of across-the-board boosts in base prices. It's far more likely they will come bit by bit, imposed first on one mill product then another, and set first by one company and next time by another.

U. S. Steel Corp., which in 1958 began trying to back away from the position of the industry's price leader (BW—Aug.2'58,p25), may very well continue doing what it can to avoid being the first to announce increases. This will affect the timing and size of the rises.

The chances for progress in productivity add to the uncertainty about price rises. The industry's operating men and the shop stewards may be able to shave costs by working out some work rule improvements, even though industry and union leaders couldn't begin to bargain on this issue during talks.

Finally, there's some strong talk of changes in pricing policy among the steelmakers. Some of them say that if the industry is to salvage anything out of the negotiations it must not simply revert to the wage increase-price cycle that has prevailed for 15 years.

• **Up, but Not Yet**—But there's still no doubt that steel prices will go up.

The word in Pittsburgh is that they'll go up "when necessary." This seems to preclude an increase in the first half of 1960. For the next six months the steel industry's volume will be high: Business is good, inventory-building is heavy.

The new contract's impact on employment costs will be gradual. Insurance, unemployment, and other fringe benefit costs will start right away, and some analysts estimate these will add about 10¢ a man-hour to the industry's employment bill. The real impact this year will come in December when direct wages go up.

Even then, you can't be sure there will be more than piecemeal increases. For in a year that's so heavily political, steel will be careful to judge the political and economic climate before it sends out new price lists.

II. In Other Industries

For scores of other industries, the settlement in steel has had an effect like the dropping of that other shoe. Businessmen who saw only two alternatives—fresh steel shortages or inflation—guess they know what to expect now.

They will probably start building their own steel inventories faster now, to beat as much as they can the eventual steel price increase. There's almost as good a chance that many other industries will try to push through their own price increases ahead of time.

There will be some dampers on the upward pressures. Federal monetary and fiscal policies will hold back some of the pressure. Rising productivity will help. And politics may well affect the issue again.

• **Autos**—The auto industry provides a picture of what may happen in dozens of other industries. Last year, the auto makers set 1960 model prices with so fine a margin that there's no room in them even for a small steel price increase. Since steel prices will go up, auto prices will go up, too.

But how they'll go up is another matter. The increases could well be hidden in extra dealer charges. The dealers would recoup by shaving their trade-in offers. And the net result would be that the retail customer would hardly be aware of the increase.

Whether it will happen this way depends on the extent of steel price rises. But if piecemeal increases do not spread far before October, the auto makers may get through the 1960 model year without a formal increase of their own. Detroit obviously expects the settlement in steel will boost 1960 auto sales.

The auto industry, like scores of others, is banking on a record sales year now that its steel supplies are assured.

• **Setback on Work Rules**—This promise of record sales—helped now by an assured steel supply—spreads through dozens of industries. It is, perhaps, the only rosy feature of the settlement for management.

For the history of the negotiations and the settlement make it plain that management's position on work rules—or "management prerogatives," or "featherbedding"—is nowhere near as strong as it seemed six months ago. That history shows that the steel negotiations bogged down once the work rule issue was raised.

Already the railroads, which are negotiating with their employees now and pressing demands for big changes in their work rules, feel some of the strength may be lost from their case.

Many labor relations executives say the steel settlement will "weaken management's will to resist." But others are not so ready to give up hope just yet. Other important labor negotiations this year may change the atmosphere produced by the steel settlement, particularly the talks this fall between General Electric Co.—a leader in management's tough resistance policy—and its unions.

White

Secret midnight meetings of Secy. Mitchell and Vice-Pres. Nixon with union and industry leaders end the long strike.

With all the elements of a Hollywood thriller—intrigue, suspense, and a happy ending—the long steel dispute wound up in the early hours of last Monday morning.

At 9:35 a.m., tired-eyed labor and management officials, flanking an equally tired-eyed Secretary of Labor, walked into the red-carpeted banquet room of the Sheraton-Carlton Hotel in Washington, to face reporters and TV cameras. They had been in constant negotiations since 11 a.m. the previous day.

Said Labor Secy. James P. Mitchell, ". . . A recommendation for settlement was made by the Vice-President and the Secretary which was accepted voluntarily by both parties."

• **Out of the Blue**—The settlement came almost out of the blue. The first hint of a break came only four days earlier, when Vice-Pres. Richard Nixon disclosed that he and Mitchell had been meeting quietly with the negotiators.

• **Pressure on Industry**—Now that it is over, it is obvious that the labor-management contest in the steel industry was settled as other critical disputes have been settled in the past—because the pressures on the parties had become so great that there was no other way out.

It was settled because of tremendous cumulative pressures. The industry found that its strategy had gone wrong. What had started as a not too popular strike of employees in mid-July, by October had turned into a grimly determined one, with workers solidly behind their union. This happened because the industry had introduced its controversial local work practices issue—and the union had quickly interpreted it as a threat to jobs and union security.

Steelmen knew they were losing ground, and that the union position was growing stronger by the day. Private checks indicated that the results of a Taft-Hartley poll of a half-million steelworkers would be overwhelmingly in favor of the union.

All in all, the industry privately was ready for a way out. It was stuck with a "final offer" that it couldn't top before the election that would reject it. It was boxed in; it couldn't bargain realistically.

• **. . . And on Union**—McDonald faced problems, too. For one thing, he feared the results of a company-by-company

House Team Breaks Steel Impasse

SECRETARY Mitchell pressured union to soften its demands, while Vice-Pres. Nixon persuaded industry to stretch its offer.

vote on the employers' last offer. He recognized that the union could suffer somewhat, from a public relations standpoint, if some groups of steelworkers accepted their employers' offer, by whatever small margin.

McDonald was also concerned about what Congress might do. And, as union officials admit privately, he and other USW leaders were not sure of what the reaction of rank-and-file steelworkers might be if a new strike should be called.

• **Official Umpires**—Early in December, Mitchell and Nixon sensed this situation; they recognized that the parties were increasingly anxious to end their long deadlock—and completely incapable of doing it, without strong outside intervention, before a Taft-Hartley vote might add further complications to negotiations.

Just before Pres. Eisenhower left for Europe, he talked separately with Mitchell and Nixon. He said that he hoped the steel dispute would be over before he returned to the White House. The two officials got together and interpreted this as a mandate to act.

The Vice-President did the spadework because, as one insider put it: "Nixon decided if intervention worked, he could bring it all out in the open. If he failed, at least the White House wouldn't be put on the spot."

• **First Approach**—On Dec. 8, the Vice-President made a first direct approach to Roger Blough, chairman of the board of U. S. Steel, and other steel industry executives. Nixon and Mitchell took a suite in the Waldorf-Astoria in New York for the meeting. Blough and his associates dined with the two officials. Afterward, they discussed the problems of reaching a settlement in steel.

Nixon and Mitchell put a blunt question to the steelmen: They asked what—exactly what—the industry would consider a "feasible settlement" of the deadlocked dispute.

They got general answers. The talk—on the surface—was no more productive than Nixon and Mitchell really had expected it to be at a first feeling-out session. But the high government officials accomplished this: They made clear to the steel executives that the Vice-President was in the dispute, seriously and to an end.

This was important. Through the years, many in industry have come to regard the Secretary of Labor as the unions' advocate in government. No matter who holds the office, he is dealt with warily when something as crucial as a steel settlement is involved. So Nixon became a balancing force to Mitchell.

• **Cards on the Table**—The Dec. 8 meeting in New York was an icebreaker. Other private huddles followed it. Nixon met next, in his home in Washington, with McDonald, whom he had known socially for years. They exchanged pleasantries, and then Nixon asked, bluntly:

"Dave, do you really want to get this thing settled?"

It was a pointed question. Some steel executives—and others—had suggested that McDonald would be willing to let the negotiations rock along indefinitely, until after the November election, for political reasons. McDonald reassured the Vice-President that he very much would like to see the steel dispute settled, but he added, being equally blunt: "I'll be damned if I'll sign any contract with them for less than the can and aluminum people signed for."

Nixon asked what McDonald would call his "rock bottom" price for a set-

tlement. In time, he got an answer: 47½¢ an hour over two years.

The companies had told Nixon and Mitchell that they could—and would—pay only 31¢ an hour for a packaged settlement. The officials knew that this wasn't so; they sensed a few cents more being held back to clinch a settlement.

• **Secret Conferences**—In the subsequent meetings held in Nixon's home and Mitchell's office, very privately, to avoid newsmen and cameras, Nixon undertook to get that something more from the industry and to persuade steelmen to relax their work practices demand. Mitchell concentrated on the union.

In industry, the officials dealt primarily with U. S. Steel's Roger Blough; dealing with the union, they talked mostly with Arthur Goldberg, USW's general counsel. They found McDonald and R. Conrad Cooper, the industry's chief negotiator since May 5, too frozen into positions and personally antagonistic.

Secret conferences continued for 10 days. They were informal. Sometimes they ended with Mrs. Nixon serving coffee and snacks, and with the Vice-President driving Mitchell or the negotiators back into town from Wesley Heights, where the Nixons live, because "cabs are so hard to get."

At times, Nixon and Mitchell would decide to take a walk—for "a breath of air"—during an evening's talk, to let negotiators for the industry and union do a bit of private dickering.

The fact that talks were going on came out into the open on Dec. 19. That morning, Nixon had a golf date with Thomas E. Dewey and Atty. Gen. William Rogers. After talking with McDonald and Goldberg, he postponed his golf date at the last minute for a quick conference with Blough.

Then, after a holiday party at his home for subcabinet officials, Nixon met with Blough and McDonald from 10 p.m. until midnight. Thereafter, confidence rose steadily. It was less a question of whether there would be a settlement than of when it would come.

• **Settlement Formula**—On Dec. 30, both sides agreed on the size and the framework of a package settlement. The negotiators had been told earlier that the government—Nixon and Mitchell—was willing to recommend a settlement formula, to be placed before them privately. Its terms would not be made public. It would be made only in a form and way that would leave the industry and union negotiators a voice—and choice—in working out contract terms. But, Nixon stressed, the recommendations would be made only if the negotiators demonstrated a willingness to accept them sincerely as a basis for settling their dispute "voluntarily" through negotiations.

The parties accepted this. The recommendations were made, in two parts—an economic package valued by the officials at 39¢ an hour over 2½ years (the industry says 41¢) and a proposal that a joint study of work practices be undertaken. This is the basis of the final settlement (page 77).

• **Sharing the Credit**—The way the recommendations were proposed is the basis for the officials' contention now that they did not "impose" terms.

According to Mitchell, the officials found through their private conferences "areas in which both sides would give ground willingly—but only if they could do it at someone's suggestion; neither would make a move on its own." The leverage of Nixon and Mitchell—Nixon credits Mitchell for much of the push, Mitchell says it took Nixon to budge the parties—got them to start moving.

When the break came on Dec. 30, Nixon was preparing to leave with his family for the West Coast. He met at the Sheraton-Carlton in the morning, first with Blough, then with McDonald. He couldn't make his plane.

Conferences continuing through the day made it obvious that Nixon couldn't get away. Mrs. Nixon and the girls went on alone. The Vice-President and Mitchell slipped out of Washington, for New York and a crucial meeting at the Waldorf-Astoria with representatives of the 11 companies in the Steel Companies Coordinating Committee. Reporters checking his whereabouts were told in Washington that the Vice-President was "busy with many things."

At the Waldorf meeting, Nixon said he wanted a "down to earth" discussion of the steel situation. He reported on the talks with Blough and the union, then put this alternative before the steel executives: They could either settle—quickly—at a definite cents-per-hour figure, the 39¢ or 41¢ package, or continue to sit tight into an uncertain future.

He warned particularly that the Democrats might make trouble. Sen. John F. Kennedy (D-Mass.) already had hearings scheduled to investigate the steel dispute. Other Democrats were champing at the bit, to make a record for labor.

• **No Threats**—Reviewing the Waldorf conference, Mitchell said this week that Nixon did not threaten the executives but that he did paint "a very realistic picture of what might happen" if they failed to avail themselves of a chance to settle—"conjuring up many possibilities of the kind of legislation that might result."

He left "many things" to their imagination, Mitchell said. Above all, he made absolutely clear that the President was determined to see the steel dispute ended.

Nixon greatly impressed the executives. Since the meeting of Dec. 30, two company presidents have spoken with considerable awe of Nixon's "grasp and great understanding" of the very complicated steel dispute.

• **Secretary's Role**—Mitchell's role was more that of a mediator. He warned that a big election victory for the union would stiffen the union position—perhaps make a settlement more expensive. He suggested that a court was likely to order 4¢ an hour in cost-of-living raises paid under an interpretation of the Taft-Hartley injunction order that continued past contract terms in effect, and urged that the industry use the pennies—voluntarily—to get a settlement.

• **Cleaning Up**—The two officials left the conference at 11 p.m. Steel executives, not all of one mind, continued debating the alternatives before them until 1:30 a.m. Before the Vice-President left New York for California early on the morning of Dec. 31, he received word that the industry was willing to "explore this suggested settlement" providing certain things could be done to assure a mutually satisfactory agreement. Marathon negotiations started Saturday morning. Mitchell didn't get to bed again until Monday night.

For a time, a Sunday evening settlement appeared certain. Mitchell discussed a statement by conference telephone call to the President's advisers in Augusta, Ga., and to Nixon. A snarl developed. The statement couldn't be released for 12 hours.

• **Experience Plus Prestige**—Mitchell's long experience and his ability in industrial relations was a vital factor, but the Vice-President's prestige and pressure actually brought about the settlement. Blough, reporting on the agreement to a national TV audience Monday night, conceded that Nixon forced the industry's hand with his warnings of the future.

The industry spokesman was not critical. He said that if terms were imposed, they were imposed more by circumstances than by the government.

• **Questions**—In 1956, similarly, Mitchell and George Humphrey, then Secretary of Treasury, worked behind scenes to end a deadlocked steel dispute. Industry's resentment was slow building up—but strong and angry when it did. There's a question, now, of whether this will be true again.

There's a question, too, of whether the settlement is a contradiction of the Administration's position against inflation. Mitchell denies that the agreement is inflationary; it fits into established wage patterns, he points out, and by his figuring will require no price rise immediately.

• **Price Hikes**—Nobody will admit it,

but there is a substantial reason to believe that Nixon, particularly, called on the steel industry to hold off on any price increase for at least one year. The arithmetic of the settlement is worked out to make that easier; the first year cost of the package is the lowest of the three years.

If there are price increases, the Administration doesn't intend to let anyone blame its role in the steel negotiations for the rises. Statements now stress the "voluntary" nature of the settlements. But the settlements were not negotiated agreements. At no point did steel industry and union negotiators actually come to terms.

• **A Matter of Timing**—Another question will be asked frequently on Capitol Hill in the months ahead: Why didn't the Administration move in quicker?

Mitchell explained this week: "What we accomplished required the passage of time and a crisis," he said. "When the circumstances were right, we succeeded."

No Tax Relief in Cards for 1960

● **Witnesses at House Ways & Means Committee hearings agreed that a cut in rates would further economic growth.**

● **But neither party wants to have to vote on the issue in an election year.**

● **So, proposals for new forms of relief face stronger opposition; and privileges already in the law will continue.**

Members of Congress who take their Gallup Polls seriously learned this week that of all the issues bothering voters, tax reduction comes first. On a list of issues that voters want Congress to face up to, tax cuts outrank such perennials as labor legislation or a solution to the farm problem.

But as lawmakers came back to Washington for the opening of Congress, they quickly learned one of the facts of political life for 1960. If the Congressional leaders of both parties have their way, there will be no chance to vote for broad tax cuts this year. And the White House concurs in this strategy.

• **In Quarantine**—This amounts to an effort to quarantine the tax issue in an election year.

There's a chance the strategy may not work. Important tax legislation is coming up automatically, such as extension of the 52% corporation income tax rate and of the special Korean War excise rates. Other tax changes are already in the legislative mill. All this will give lawmakers a chance to tack on tax-cut amendments.

But, though the House Ways & Means Committee held more than 30 separate sessions and heard some 80 expert witnesses give their views on the existing tax law (BW–Nov.14'59,p32), everything done so far is only exploratory, Chmn. Wilbur D. Mills (D-Ark.) is telling fellow lawmakers.

Impatient northern Democrats, who try repeatedly to push through tax changes by action on the Senate floor, suspect that the investigation was timed on purpose to keep tax reform from flaring up in an election year.

• **What Hearings Did**—Despite such murmurings, the hearings have already affected the outlook for tax legislation, both short and long term.

Any doubts on this score were lessened when the Administration—after remaining silent through the first set of hearings—finally gave the investigation a public nod of approval. Treasury Under Secy. Fred C. Scribner, Jr., who is responsible for tax policy, wrote Mills that the hearings made a major contribution to public understanding of how income taxes work.

Scribner pointed out that a majority of the witnesses agreed that the climate for economic growth would be improved if tax rates were reduced—but that there was no agreement on how to go about the job. He was carefully neutral on the main point stressed by Mills throughout the panel discussions—that tax rates could be reduced without impairing revenue if income now excused from taxation was made subject to the tax laws.

• **Two-Way Impact**—The investigation will affect tax maneuvering this year in two different ways:

Proposals for new forms of special tax relief face stronger opposition.

Witness after witness warned against further erosion of the tax base—by which they mean any legislation to lighten the tax burden on special groups of taxpayers or on income from special sources. Mills and several key Republicans often made the same point.

This could affect legislation already under consideration. Before Congress went home last summer, for example, the committee tentatively approved a bill backed by Rep. Hale Boggs (D-La.) that would give tax relief to earnings of U.S. corporations from foreign operations. Business groups urged its adoption and its chances looked good.

But after hearing a panel discussion on the idea last month, Mills expressed fresh doubts about the idea, and Jay W. Glasmann, Assistant to the Secretary of the Treasury, has recently gone on record against the bill as it now stands. Glasmann cited the views of panelists before the committee that "tax incentive and tax preference measures move in the wrong direction."

Another bill that might be hurt is one already approved by the House granting tax relief to self-employed persons with their own pension plans. Witnesses attacked it as removing another chunk of income from the base.

On the other hand, privileges already in the law will be protected at least for a while.

Mills and the Treasury Dept. are both stressing the importance of moving slowly and warning against hasty action. This argument will be used to curb a group of northern Democrats in the Senate who are critical of various tax provisions favorable to business. They would like to force the Senate to vote on depletion allowances again this year, as they did in 1959. They also may try to repeal the relief granted in the 1954 Revenue Act to income from stock dividends. An effort to apply more rigid standards to deductions for business expenses will be revived this year.

Such flare-ups can be embarrassing to the Democratic leaders of Congress in an election year. Mills in the House and Majority Leader Lyndon B. Johnson can cite the committee's unfinished study as an important new reason for postponing action.

• **Three Implications**—The most important long-range significance of the hearings looking beyond this year stems from three ideas that cropped up consistently.

(1) Economic growth should be more important as a goal of tax policy.

The surprise of the investigation was the way witnesses assailed the present system as a drag on growth. The way to get faster expansion, many of them agreed, is to revise the law in ways that may stimulate investment.

Many of them argued that the upper-

bracket personal income rates may be drying up a source of funds for investment. There was a drive in many panels for more liberal depreciation allowances. A case was made for deferring the capital gains tax in cases where funds raised by selling assets are reinvested.

There were a few skeptics among the economist witnesses as to whether such changes would actually result in faster growth. But ever since World War II the men who write the taxes for the other industrial countries of the free world have been trying out measures that they believe speed the process of industrial expansion—and on the whole their countries have been growing faster than the U. S.

(2) There is rising dissatisfaction with the equity of the present law.

Equity has traditionally been linked primarily to progression. The system was considered fair if the burden of taxation fell heavily enough on the well-to-do and lightly enough on the poor. But a new form of inequity has crept in. People with the same amount of income now pay widely varying amounts of taxes, in violation of one of the classic principles of taxation.

The unequal burden on equal incomes springs from the scores of special tax relief provisions voted into the system over the years. The retired are favored over those still actively at work; the sick are favored over the healthy; married couples are favored over the unmarried; through fringe benefits, employees of large corporations are favored over others. The list is a long and varied one.

All this leads to suspicions about the innate fairness of the system. It is no longer possible to say the system is fair simply because of a steeply ascending structure of personal rates; this lesson from the hearings will be driven home to Congress when the next phase of tax reform opens.

(3) Taxes are being collected only with increasing strain on the traditional self-assessment system.

The soft under-belly of the collection process is an estimated \$24-billion a year of income that goes unreported. About half of this, Russell C. Harrington, a former Commissioner of Internal Revenue, told the committee, is business income going to non-corporation taxpayers such as farmers, professional men, and the self-employed; \$3.5-billion is unreported interest and \$1-billion is dividend income that never shows up on tax returns.

Ways of getting at this income through more extensive enforcement, plus the greater use of electronic equipment to check returns, and possibly through withholding on interest and dividends, are going to play a big part in future tax discussions.

LYNDON JOHNSON is in best posture of hopefuls to campaign on Senate record.

JOHN KENNEDY will try to make the most of his labor subcommittee post.

Running for President in

Politicking will take precedence over legislating this session as Republicans and Democrats alike try for Presidential votes. Senate is full of hopefuls.

For the next six months, the battle for the Presidency will be waged mainly within the confines of the U. S. Capitol, where the second session of the 86th Congress assembled this week.

The new session, which will adjourn in early July so that congressmen can attend the national nominating conventions, shapes up as one in which individuals will be as important as issues—and perhaps even more important. Never before have the major Presidential aspirants been so heavily concentrated in the national legislature. Of the five leading Democratic hopefuls, four (pictures) are members of the Senate; only one—Adlai E. Stevenson—doesn't have the chance to make personal political capital through his performance in Congress.

The majority Democrats are expected to make bare-knuckle partisanship the order of the session. Pres. Eisenhower's veto probably will once more be, as it was in 1959, an effective stopper, but that will not deter Democrats from free-wheeling legislation aimed more at making issues than laws.

I. Strategies: GOP . . .

On the Republican side, Vice-Pres. Richard M. Nixon is, of course, in the catbird seat, since his only potential rival for the Presidential nomination—Gov. Nelson A. Rockefeller of New York—gave up the idea of becoming an active candidate (BW—Jan.2'60,p22). As Vice-President, Nixon performs a largely ceremonial role as the Senate's chief presiding officer. He makes no speeches in the Senate, introduces no legislation, and votes only in case of ties. But as the heir apparent to Pres. Eisenhower, Nixon has tremendous influence among Republican legislators—and that influence will be greater than ever this session.

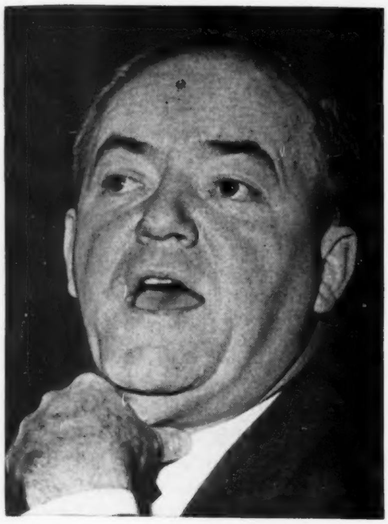
• **Nixon on Top**—More and more, Republicans in both House and Senate will look to Nixon for strategic leadership in the day-to-day partisan infighting against the Democratic majorities. This will occur for two reasons:

• The natural tendency of politicians to seek favor with the man who might very well become the next President and who, in any event, figures to become the GOP's titular leader after the July nominating convention in Chicago.

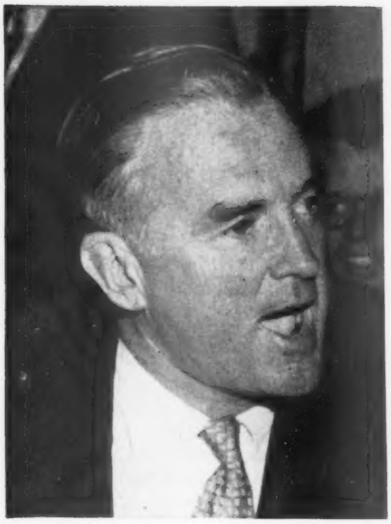
• The presence among Republicans in Congress of several potential Vice-Presidential candidates—ranging along the political spectrum from the liberal New York Sen. Kenneth Keating to the ultra-conservative House Leader Charles Halleck of Indiana.

• **Busy Behind Scenes**—How Nixon makes use of his rising influence will not always be apparent, for his strategy is to avoid overt involvement in the running fights inside Congress. But there is no practical chance that, behind the scenes, Nixon can or will even try to keep out of these fights.

Some observers feel that Nixon will



HUBERT HUMPHREY will spend most time as spokesman for party's left wing.



STUART SYMINGTON will broaden his interests from defense to farm problems.

in Halls of Congress

now take advantage of his new strategic position, with the nomination all but wrapped up, to move toward advocacy of slightly more federal spending than the Administration has proposed for certain areas where the national need and public demand are adjudged to be strongest—say, aid to education for one possible example.

II. . . . and Democratic

One premise is sound: Republicans can look forward to the political luxury of a relatively united front, once strategy has been hashed over and agreed upon. Democrats will have no such luxury. The prize of their Presidential nomination still hangs high, and it is being sought by too many strong-willed individuals who see in this Congress their big chance to grab it for themselves by building a personal record.

Most Democrats will agree on two broad propositions that underlie the party's developing position. The arguments:

- The Eisenhower Administration has, through default of leadership, put the U.S. in jeopardy of becoming a second-best world power.
- Nixon can be cut down through attacks that link him with the Eisenhower "failures" and portray him as a political campaigner who hits below the belt.

• **Hunt for Issues**—But the Democrats face a dilemma. They go into election year without any one big, fully developed political issue. Moreover, they do not have any standout political star of the Nixon magnitude.

In this situation, especially since the Republicans have more or less preempted the prime issues of peace and prosperity, Democratic contenders will be scrambling frantically for some issue or issues. These are the senators who are involved:

Senate Leader Lyndon B. Johnson, an unavowed but busy candidate, will take up the pursuit at an early date. As chairman of the Senate committee on space, Johnson will have charge of a searching inquiry into the U.S. failure to catch up with Russia in the exploration of space.

Sen. John F. Kennedy, currently the front runner among the Democratic candidates, will operate mainly from the chairmanship of an important labor subcommittee. One of Kennedy's early ambitions is to steer through the Senate a bill raising the minimum wage to $1.25 per hour (from $1) and extending its coverage to several million additional workers.

Kennedy had planned to open the session with an intensive inquiry into the steel strike, and his backers had counted on him to spearhead a Democratic drive that would have "pressured" a settlement. This would have been, so the reasoning went, quite a political feather for the cap of the young Massachusetts Democrat. The Kennedy people claim that the mere threat of Kennedy's investigation hastened the settlement that finally came on Monday, some 48 hours before Congress opened. There appears to be some element of truth in the claim, but the political feather for the settlement went to Vice-Pres. Nixon and Labor Secy. James P. Mitchell.

The other two Democratic Presidential hopefuls in the Senate, **Hubert Humphrey of Minnesota** and **Stuart Symington of Missouri,** don't have such headline-catching committee or subcommittee chairmanships as Johnson and Kennedy.

Humphrey does head a Foreign Relations subcommittee that will study the economic implications of disarmament, but the Minnesota senator seems more intent on stepping up his busy pace as an articulate spokesman and legislator for the ultra-liberal wing of the party.

In this role, Humphrey will push legislation for such things as a long-term "food for peace" program, a strong civil rights program that would include placing federal registrars in the Deep South to help Negroes obtain voting rights, more money for urban renewal and stream purification, a youth conservation corps patterned after the CCC of New Deal days, federal aid for school construction and for increasing teacher salaries, and expanding Social Security benefits to include federal hospitalization insurance.

Symington, a former Air Force secretary, has a reputation as a "one note" legislator whose specialty is defense. He will continue this pursuit, but Johnson has become the dominant figure in the field by virtue of his place at the head of the space committee. Symington will attempt to broaden his base by taking an active hand in the Democratic drive—almost certain to fail—to write basic new farm legislation appealing to the dissident Midwest. But here Symington will be forced to share attention with another of his Presidential rivals, this time Humphrey.

• **Most Influential**—Of the group, Johnson appears to be in the best position to influence the course of the Congress. As Democratic leader, he has powerful allies in key places, not the least of whom is House Speaker Sam Rayburn. Neither Johnson nor Rayburn will be so intent this year, as they were in 1959, on compromising with the Republican President. Liberal Democrats will have more opportunity to legislate issues by pushing their pet bills toward the White House with less regard for the possibility of a Presidential veto.

Nevertheless, Johnson's personal ambitions are subject to hazards that stem, in part, from his position of responsibility. If Democrats fail to make an impressive Congressional record, Johnson will have to bear more than a pro rata share of the blame. And in the fierce internal struggle between his party's liberal and conservative wings—especially on civil rights—Johnson's position as the "moderate man in the middle" will be increasingly difficult to maintain.

GE Slaps Price Rule Violators

In rare public punishment of managers who broke rules about discussing price with competitors, Chmn. Ralph Cordiner reaffirms strictness of the company's ethical standards.

General Electric Co., in public disclosure probably unprecedented, announced this week it has demoted several executives because they had discussed prices with competitors in bidding on government contracts for electrical equipment.

A federal grand jury at Philadelphia has been investigating the pricing policies of electrical equipment manufacturers since last July.

Ralph J. Cordiner, chairman of the board, told a GE management meeting in Hot Springs, Va., that "certain general managers" are being punished for "flagrant disregard" of a long-standing company policy that specifically prohibits any discussions with competitors regarding prices or terms and conditions of sale. He said that he knew of only one other company in American industry that has "a published policy such as ours on antitrust compliance."

• **The Punishment**—Cordiner didn't name the offenders. But he said GE had forced them to resign any "officership" or had otherwise reduced them in rank, cut their pay, and reassigned them so they have no responsibility or authority for pricing. Their future at GE isn't foreclosed, he added, but they will have to redeem themselves. He told the management group:

"As I meet with you today, I obviously do not know how many General Electric individuals may prove to have been involved, but any further disclosures or future implications will likewise result in disciplinary action."

• **Identical Bidding**—The grand jury investigation stemmed from complaints by the Tennessee Valley Authority that it had received identical bids from several suppliers of power generating and distribution equipment. The TVA complaints aren't new; the agency has made similar charges many times in recent years. But the grand jury action represents the first serious effort to follow up the charges.

It is known that representatives of all major electrical equipment producers and of many smaller suppliers have appeared before the grand jury. It is also reported in industry circles that the investigation has gone far beyond the TVA charges to include such matters as the so-called "white sales"—sudden and drastic reductions in prices on major power equipment that periodically sweep the industry.

Sen. Estes Kefauver (D-Tenn.) has already held one series of hearings by his Antitrust & Monopoly subcommittee on the TVA bidding situation. That was last September in Knoxville, Tenn. He has also long planned to hold hearings sometime this year on other identical bidding with such agencies as the Defense Dept. and the General Services Administration. Since GE sells many products to many government agencies, the Cordiner disclosure may speed up his plans.

The initial phase of the grand jury investigation in Philadelphia is expected to end early next month, either with the handing down of indictments or the dropping of the case.

• **Discovery**—GE's stern rebuke and punishment of its employees—who number less than a dozen—followed discovery in mid-October, Cordiner said, that some of GE's general managers who had previously denied any wrongdoing had been named in testimony.

"This time," he said, "when confronted with the outside information, they acknowledged that during the past several years, and in some cases continuing in 1959, they had been party to the discussion of prices with their competitors in violation of the company's Directive Policy 20.5. That they knew what they were doing was wrong was borne out by the fact that they concealed this activity from their lawyers, the executives, and anyone else not party to the activity."

• **Seriously Concerned**—Cordiner went on: "To determine what discipline should be imposed was a very difficult and complex decision. Some of these associates of ours . . . may be found personally and individually liable under criminal indictments which may be returned by the grand jury. Their punishment could be most severe."

Whatever legal action is taken, he added, GE policy goes beyond what the antitrust laws require. "Surely," he said, "the company could not continue individuals in positions of responsibility where the facts showed not only an intentional violation of the company's policy, but where the individuals involved in some cases initially misrepresented the facts to their superiors."

• **Effect of Action**—With the grand jury still at work, the Justice Dept. had no comment to make on the implications of Cordiner's statement or the effect on the employees involved. But one antitrust spokesman did say: "There's never been anything to parallel Cordiner's statement."

Ordinarily, the mere fact that higher corporate officials are unaware that an employee talked prices with competitors or otherwise violated antitrust laws doesn't relieve the corporation of legal responsibility. But a jury might feel that a company itself has always acted in good faith, and the fact that the company disciplines offenders promptly would presumably work in the company's favor.

The Justice Dept. has lost a few cases in which juries concluded that a company should not be held liable for conduct of its officers that was outside the scope of their usual functions.

• **The Competitors**—It's obvious that GE's disciplinary action and Cordiner's statement implicate the competitors with whom employees allegedly talked price.

GE's biggest competitor, Westinghouse Electric Corp., issued a statement that said it had a "long-standing policy of abiding by all laws under which the company operates, as well as the highest standards of lawful, ethical, and moral conduct."

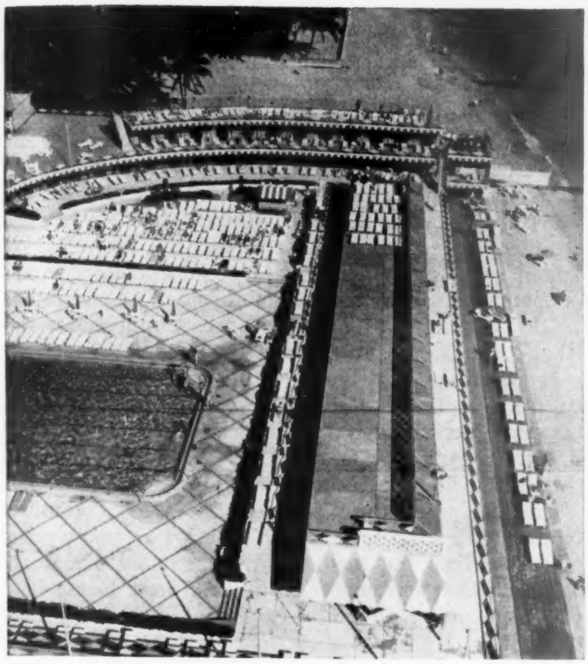
It added that Westinghouse was aware of the Philadelphia grand jury investigation and concluded: "Westinghouse will not condone any violation of our own policy regarding trade regulations; neither will we prejudge any employee."

Allis-Chalmers Mfg. Co., third producer of heavy electrical apparatus, had no comment.

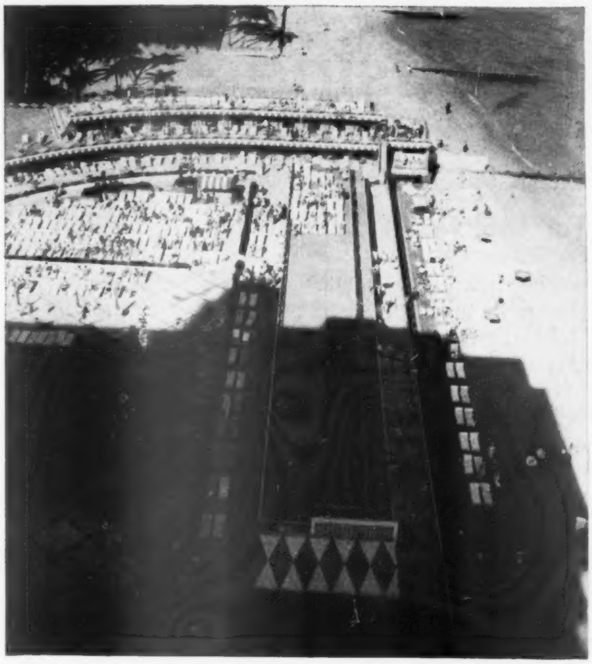
• **Lasting Stain**—Cordiner's unusual statement at Hot Springs pointed up just how seriously the company considers the allegations. He said: "What occurred is deeply regretted, and I fear its blow upon the company's good name will live with us for many years, because our detractors will publicize it, repeat it, and attempt to have the public interpret it as typical of the acts of all General Electric people. But this situation will pass, as have other unfortunate situations. The public has faith in the General Electric Co. as a corporate entity. We must measure up to that faith and confidence."

He admonished his management people that this is a matter of business ethics that goes beyond the law.

"But even if this were not a matter of law and business ethics," he added, "sound business judgment would argue against actions that restrict competition. Every company and every industry—yes, every country—that is operated on a basis of cartel systems is liquidating its present strength and future opportunities."



10 A.M., bathers at Eden Roc bake and brown until . . .



2 P.M., when Fontainebleau Towers cuts off the sun.

Florida Hotel Fights a Shadow

Miami Beach's plush Eden Roc is booking top show talent to offset "malicious rumors" that it has no sunlight.

Miami Beach, struggling to keep its share of the vacation dollar in the face of growing competition from other winter resorts, took time out to watch two rival hotels trade blows over a shadow.

The trouble started last summer, when the Fontainebleau—the Beach's most fabulous hotel—added the 14-story, 400-room Fontainebleau Towers, increasing its capacity to 1,000 rooms.

In the process, Ben Novack—who owns 72% of the hotel—also created a king-size controversy. Because he built his Towers on the northern lot line of his 14-acre layout, the skyscraper addition partially blocks the sunlight from the pool and cabana area of his neighbor and foe of long-standing, Harry Mufson of the Eden Roc.

• **Counter Measures**—Mufson, whose hotel ranks with the Fontainebleau and Americana, had done all he could legally to block the Fontainebleau addition. Now he is trying to combat the adverse publicity caused by talk of the "shadow" that the Fontainebleau casts on his plush layout. This season, he is countering with such star attractions as singer Johnny Mathis, comedian Joe E. Lewis, movie star Rhonda Fleming, singers Lena Horne, Carol Channing, Eartha Kitt, and Nat King Cole.

Mufson claims that his guests are disgusted by "malicious rumors" that the Eden Roc has no sunlight, that they can't get a tan by staying at his hotel. He calls the northern face of the Towers—which has no windows and reaches out almost to the ocean—a "vicious piece of concrete." He claims that business was better than ever this Christmas season, and points out that by February the sun will be higher in the sky and won't block the Eden Roc's pool area for part of the afternoon.

• **No "Spite" Job**—Novack denies that his construction of the annex in such a position was a "spite" job, and claims that he couldn't have done otherwise because he didn't want to have columns in his grand ballroom. He disclaims any thoughts of putting a huge neon sign across the wall, and insists that he has no intention of purchasing the Eden Roc "for any price."

Seemingly unconcerned over the controversy he had created—it went all the way to the state supreme court—Novack calls the Eden Roc (400 rooms) a "small hotel," says he doesn't even know it's there.

He is concerned about filling his hotel, however. With a $40-million investment to protect, Novack has lined up such stars as Marguerite Piazza, Milton Berle, and Frank Sinatra, although conceding—as do all Beach operators—that he loses money on most night club shows.

• **Bid for Guests**—Other Miami Beach hotel operators also are taking costly steps to keep the customers coming. Last week, at the height of the Christmas season, Morris Landsburgh tossed a cocktail party in his home for the 4,000 guests at his six hotels. The shindig cost him $7,500.

The Eden Roc treated 75 teenage guests to a cook-out and camp-out on the Miami side of Biscayne Bay.

The Diplomat presented humorist Harry Hirschfeld and Sen. Jennings Randolph of West Virginia in separate lectures as part of its Festival of the Seven Arts.

• **Ballyhoo**—Whether this kind of promotion is paying off is questionable. Despite all the ballyhoo about the Beach having a good Christmas season, hotel business for the most part was not up to expectations. Only a few—such as the ultra-lush Fontainebleau, Americana, and Deauville—boasted of capacity houses. Hotels along the oceanfront ran between 70% and 90% of capacity, with hotels off the ocean doing even worse.

But if some hotelmen were unhappy, the motel owners were beaming. They enjoyed a splendid Christmas business. "We turned them away," says Joe Hart, whose Castaways Motel, built with Teamsters Union money, is the biggest in the area. On the strength of this record, Hart is planning a 300-room motel in the heart of Miami Beach, with an opening scheduled for December.

In Business

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IRS Issues Its Ban on Deductions For Lobbying Despite Wide Opposition

The Internal Revenue Service has issued without change its much criticized ruling on tax exemptions for "lobbying expenditures," despite the unanimous opposition of such disparate groups as the National Assn. of Manufacturers and the AFL-CIO.

The new rule—which its foes call ambiguous, legally questionable, and impossibly complicated—was **apparently issued by IRS not so much to be effective as to pressure Congress into revising the law that defines lobbying and regulates what spending on ads and other organization activities can be deducted as a business expense.**

Any such action by Congress is unlikely in this election year, and most Washington observers feel that IRS hopes its ruling will serve to draw critical fire from itself to Congress. The IRS ruling bars deduction of any spending designed to influence legislation or the public attitude toward legislation.

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Labor Fights Management Move to Ease Massachusetts Rule That Pay Be Weekly

Management and organized labor in Massachusetts are locked in battle over attempts by insurance companies to soften an 1879 law—plus a 1959 court interpretation—saying that all employees in the state must be paid weekly.

The row started when state officials discovered that American Mutual Liability Insurance Co. was paying its employees every two weeks—one week already earned and one week paid in advance. The state ordered American Mutual to pay weekly, and the company appealed to the courts—which said the law meant just what it said, advance or no advance.

Now American Mutual and other big insurance companies are backing a bill that would exempt payments in advance from the weekly restriction. The State Labor Council opposes the bill, saying that the law effectively prevents dying companies from welshing on wages. The council says it has no quarrel with the big insurance companies, but fears that all the state's marginal outfits would jump on the non-weekly bandwagon if the law were weakened.

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New Haven Sets Fare Boost, Subsidies As Price for Continuing Commuter Service

The New Haven RR this week gave its 28,000 daily commuters and the governments of New York, Connecticut, and New York City an ultimatum: Give us a fare increase, tax relief, and direct subsidies by June 30, or face a rapid ending of commuter service.

Pres. George Alpert said that service requires:

- An immediate 10% fare increase.
- Government action within six months to give the New Haven some $6-million a year in subsidy through tax relief and direct payments.
- And if these two steps don't eliminate the $8-million a year the road loses on its Connecticut-New York commuter service, then the road should get further 10% fare increases every six months until the deficit is covered.

Alpert lodged the road's application for the first 10% fare increase at midweek, asked railroad regulatory groups—the Interstate Commerce Commission and the Public Utility Commissions of New York, Connecticut, and Rhode Island—to grant the boost by Feb. 4.

If the groups hold hearings, the increase could be delayed six months or more. So Alpert says that unless the increase goes through "without suspension" he'll ask right away for a 70% fare increase. He'll do the same if there's no action on tax relief and subsidy by June 30.

This could effectively wipe out the road's commuter business. Alpert agrees: "I don't know how many riders we'd have then, but there wouldn't be many."

To abandon service, the road would have to get ICC permission. But, says Alpert, without subsidy the road could not continue to meet its $9-million-a-year equipment maintenance bill. He adds, "We cannot run equipment that's not safely maintained."

By midweek, no state or municipal government had replied to the New Haven's ultimatum.

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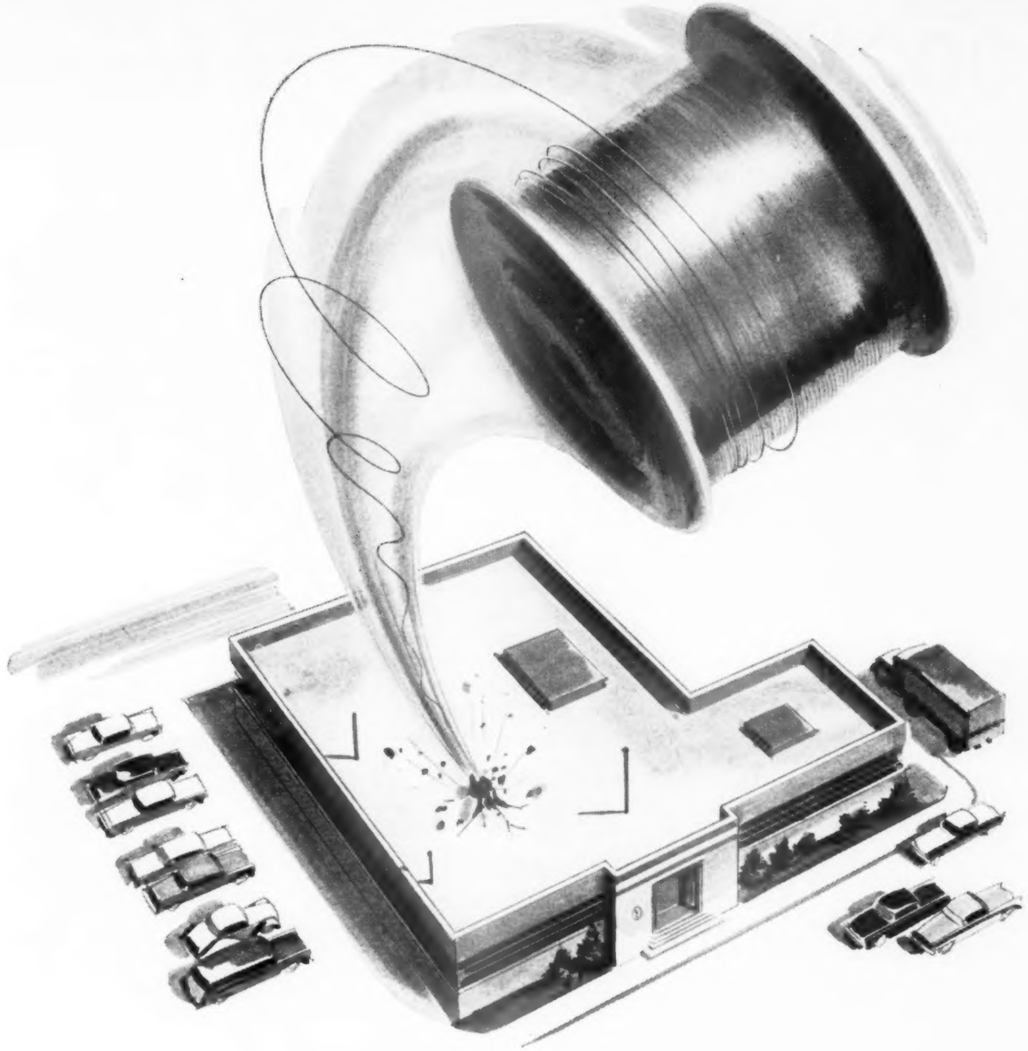
Business Briefs

Interstate Motor Freight System, seventh ranking motor common carrier, is the latest trucker to seek acquisitions (BW—Jan.2'60,p38). The Grand Rapids company has just picked up **Lancaster (Pa.) Transportation Co.,** which it expects will add an annual $4-million to revenues. Interstate is also scanning smaller lines throughout the country for possible buys. This year, Interstate hopes to get permission from the Interstate Commerce Commission to buy **Connecticut Motor Lines, Inc.,** which it operates now under temporary ICC permission.

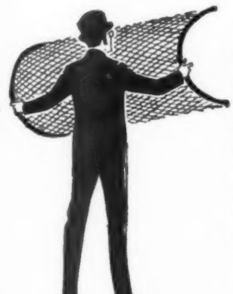
Construction volume last year is believed to have reached $54.3-billion, up $300-million over estimates a few weeks ago, the Commerce Dept. reports. The figure was achieved in spite of steel shortages and greater than seasonal declines in home building and highways. And Commerce predicts a rise of $1-billion in 1960. (Revised total for 1958—$48.9 billion.)

The government last week formally closed out its **fast tax amortization program,** set up in the Korean crisis to stimulate expanded production for defense and essential civilian needs.

Gulf Oil Corp. has agreed, under a Federal Trade Commission consent order, to sell some of the properties it acquired in 1956 when it bought **Warren Petroleum Corp.** The order, which also regulates relative sales of Gulf and Warren for 10 years, settled FTC charges that the merger tended to create a monopoly in the production and sale of liquefied petroleum gas and natural gasoline.



The 80-lb. spool that almost went into orbit!



And how the friendly AM man's down-to-earth advice helped set up a vital safeguard for a "safety-conscious" policyholder.

The heavy spools on the cable-winding machine were whirling away at speeds over 1600 revolutions a minute.

Suddenly there was a loud "whoosh" as one of the spools spun from its cradle, crashed like a rocket through the roof, and plummeted finally to the street. Somehow the automatic locking device on the spool had failed. Fortunately, the only damage was to the roof. But to prevent a recurrence that could cost a life or limb, an AM Safety Engineer was called in. After study of the complete operation, and with his advice, a special guard was installed, equipped with micro-switches to instantly stop the machine if the guard is opened and to prevent its operation if the guard is not closed.

Unusual as this case was, it's not unusual for AM policyholders to profit regularly by teaming up with American Mutual Safety Engineers. In fact, over the past 5 years, this policyholder has enjoyed insurance rates 25.9% less than the average for the industry and further reduced costs through American Mutual dividends.

If such savings make good sense to you, why don't you call in the *friendly* AM *man*, too. Remember, he can advise you on all your liability insurance needs. American Mutual, Dept. BW-1, Wakefield, Mass.

American Mutual

LIABILITY INSURANCE COMPANY

"The First American Liability Insurance Company"... a leading writer of Workmen's Compensation, all forms of Liability, Crime, Accident and Health Insurance.

ECONOMICS

7,000 Ways to Cure the Economy

Just about everyone at American Economic Assn. meeting has his own idea of what's wrong, what's to be done.

"Our meetings this year," Arthur F. Burns declared in his presidential address to the American Economic Assn. in Washington last week, "are focused on the broad problem of improving the performance of the American economy."

After setting his colleagues this task of appraisal and criticism, however, Burns—former chairman of Pres. Eisenhower's Council of Economic Advisers—urged his fellow economists not to let their impatience for reform get out of hand or lead them to exaggerate the nation's failures or to understate its successes.

• **Milder Recessions**—Burns' own speech was a model of how to mix satisfaction with anxiety. He thought his analysis of changes in the structure of the American economy since the great depression supports the judgment that future recessions or depressions are likely to be "appreciably milder than those pre-war."

But, said Burns, it supports no more than that. The business cycle isn't dead, our ways of dealing with it are "haphazard," the structure of the economy might become less stable once more, espisodic factors might produce "a future recession both longer and deeper than any we experienced in the postwar period." Inflation remains a grave threat to both domestic stability and the nation's international economic position.

So Burns saw a great need for proposals to modify the structure of the U.S. economy "so as to strengthen the forces of growth and yet restrain instability."

• **Brainstorming**—Through four days of meetings attended by 7,000 economists and other social scientists, policy proposals poured out, covering all phases of the economy. However, they did not add up to a unified program for economic reform. Most of the discussion took place in a semi-vacuum, remote from the political and social groups that would be required to fight for and administer the reforms.

Indeed, the session came off as a sort of economists' brainstorming session, at the end of which the economists were well aware that only a limited number of their proposals were likely to result in action.

• **Chief Goal**—The main goal of the proposals was to reconcile growth with high employment and price stability.

Yesterday's inflationists had been driven to cover. There was general agreement that the U.S., bent on economic growth and facing a determined Communist opponent, could not simply bull its way upward, regardless of inflationary effects on the cost and price structure; this would wreck its international position. Nor could the U.S. draw into its own shell, follow economic "Fortress America" policies, without grievous damage to the political and economic unity of the free world.

The best way out, the economists agreed, would be to make the U.S. economic machine function more efficiently—with less drag from unemployment, less clogging from business or labor monopoly, less bumping and braking from ill-conceived government policies.

• **Perennial Conflict**—Paul A. Samuelson and Robert M. Solow of MIT emphasized the main deficiency of the present U.S. economy—that it can't seem to achieve growth and high employment without inflation, yet can't fight off inflation without incurring a politically intolerable level of unemployment.

According to their calculations, price stability in the next few years could not be maintained except at cost of an average unemployment level of 5% or 6%. If unemployment is to be kept down to 3% or less, prices might have to rise by 4% or 5% each year.

The MIT men suggested that the "terms of trade" have been worsening in the past decade—that it now takes more unemployment to purchase more price stability. They didn't suggest how to reconcile the situation; they left that job to others.

• **Mainly Prices**—Joseph A. Pechman of the Committee for Economic Development dissented from the Samuelson-Solow view. The inverse relation between unemployment and price stability is, in any given year, a vague and loose one, he said. He put major blame on a long updrift in prices that seems to be getting more serious.

It's important to stop this price uptrend, Pechman said, but he deplored any such drastic suggestion as permanently accepting a higher average level of unemployment. He called attention to more constructive ways to gain greater price stability without increasing unemployment or cutting the economy's rate of growth:

• The government should stop putting floors under prices. Farm price props are the outstanding example, said Pechman, but tariffs, import quotas, and the stockpiling of huge supplies of metals and minerals have a similar effect on prices.

• Mobility of labor should be improved to eliminate pockets of unemployment in depressed areas. It wouldn't cost much, Pechman said, to improve U.S. employment services to

ARTHUR F. BURNS, president of the American Economic Assn., welcomes Treasury Secy. Robert B. Anderson at AEA meeting that dug into basic problems of economic growth.

THEODORE SCHULTZ of the University of Chicago succeeds Burns as president, with Paul Samuelson of MIT next in line.

EDWIN G. NOURSE, former Truman aide, urged economists to find cures for economic ills, not to rely on Washington.

JOSEPH A. PECHMAN of the CED said price stability would be likelier if the government stopped propping some prices.

keep workers better informed of job opportunities in other regions. He suggested a small subsidy to workers who are placed in other areas through the employment service, as well as some way to protect workers' pension rights when they change jobs.

• The government should help management and labor, through collective bargaining, to devise "fair and practical procedures for releasing workers who are no longer needed because of technological and other improvements in production techniques," so the economy can reap the full advantage of technological progress.

The best defense against inflation, Pechman argued, is an effective defense against recession, strengthening the economy's built-in stabilizers. Fear of inflation, he said, inhibits policies that might rectify business slumps. Thus, recessions are deeper than they need be, and recoveries, when profits bounce up again, lead to wage gains that outrun average gains in productivity.

• **Selective Restraints**—Lloyd Reynolds of Yale, like Pechman, backed away from the idea that price stability can be achieved only by boosting unemployment and, by implication, stunting the economy's growth. He agreed with Charles Schultze of the University of Indiana (BW—Oct.3'59,p146) that recent inflation has been due to shifts in demand rather than an over-all excess of demand.

Reynolds would attack this kind of inflation with selective rather than general monetary restraints. In 1955-57, for example, he would have chosen fiscal devices to ease the pressure on the steel and machinery industries by moderating or stretching out the capital spending boom. He suggested consideration of the Swedish technique of giving tax advantages to companies that are willing to set aside profits during prosperity peaks and reinvest them during a downswing.

Reynolds favors close official or quasi-official attention to pricing and wage-setting in key industries but opposes government review and approval as "rather dangerous and probably unnecessary under peacetime conditions." Investigation and publicity might be enough, he said.

• **U. S.' Economic Arthritis**—Edwin G. Nourse, first chairman of the Council of Economic Advisers under Pres. Truman, observed that the economy is suffering from more than one or two localized ailments. The whole "arthritic body economic," he said, is suffering from rigidities: agricultural "parity," national and pattern wage settlements, internal financing of corporate growth and technological change with "little reference to the more detached judgment of the investment market," wage escalation clauses, stockpiling subsidies, price determination, and "the taboo on price competition within industries."

As remedies for these rigidities, Nourse suggested:

• Integration of "our sprawling and confused antitrust statutes into a basic policy law that declares a comprehensive principle of free competitive enterprise" and that can be vigorously enforced by the government.

• "Realistic" studies of fundamental theory of large-scale competition, made by economists for the guidance of the legislators, the courts, the antitrusters, and the public. Nourse urged fellow economists to "forswear a good deal of academic boomdoggling in the name of research" and find ways of "capturing the benefits and avoiding the abuses" of competition among big economic units.

He warned against relying on the executive or legislative branches of government to provide the right answers. Congressional action, he said, "is not based merely on honest debate among informed statesmen—it will also reflect ruthless pressures of interest groups, and sordid trades among 'practical' politicians."

• **Anderson Speaks**—The surprise hit of the show was the man perhaps best situated to put some of the economists' proposals into action: Treasury Secy. Robert B. Anderson.

In a pithy and sophisticated speech, Anderson stressed the importance of "sustainable economic growth" in meeting the nation's domestic and international problems. The Administration's attack on the balance-of-payments problem, he promised, will be "consistent with our vital goal of promoting multilaterial world trade." Basic to this goal, he said, is the necessity for controlling inflation—a job that would be easier if Congress repealed the 4¼% ceiling on long-term government bond interest.

But Anderson showed that inflation isn't his only concern. He surprised many by speaking up strongly in favor of a contracyclical fiscal and monetary policy to check recessions as well as inflation. Economists in his audience pronounced him the first Treasury Secretary in U. S. history to declare that in time of recession, budget deficits are not only unavoidable but indeed "desirable."

Ordinarily, he said, he would let such budget deficits in a recession result from an automatic fall in tax receipts and automatic rise in government spending due to such built-in stabilizers as unemployment compensation. But he added that conditions might well arise in which he would favor "intentional variations in tax rates or spending programs for cyclical purposes." END

WASHINGTON OUTLOOK

WASHINGTON BUREAU
JAN. 9, 1960

A BUSINESS WEEK SERVICE

A new appraisal of Vice-Pres. Nixon's political situation as this crucial election year of 1960 gets rolling:

Things have gone incredibly well for Nixon in recent weeks. First came the Rockefeller withdrawal, leaving the Vice-President a clear track for the GOP Presidential nomination. Then came this week's steel settlement, in which Nixon had a vital hand (page 26).

The future looks rosy, on the whole. Natural political forces will cause GOP members of Congress to gravitate more and more to Nixon (page 30), and one consequence probably will be more direct influence for the Vice-President in Administration policy decisions this year. There is no sign that Pres. Eisenhower will either resist or resent this trend. Eisenhower will spend a lot of time traveling abroad during 1960, and Nixon will put in more time than ever as the "keeper of the store"—presiding over Cabinet meetings, sessions of the National Security Council, and other meetings. On the whole, it means Nixon will have ample opportunity to develop the image of a logical and able successor to Eisenhower.

On balance, the steel settlement is a coup for Nixon—of the first magnitude. Democrats in Congress would have loved to pull it off and claim the credit for themselves. Nixon convinced the steelmakers they had better settle before Congress could get into the act.

Nixon's argument—that the Democratic Congress would be inclined in an election year to be harsher on management than on labor—is accepted generally hereabouts as a sound and effective one.

The hazard for Nixon in all of this is freely acknowledged, in private, by his counselors. If the steel companies do not hold the price line and if the steel settlement triggers a new round of inflation anytime soon, then the consequences for Nixon could be painful indeed.

Several encouraging factors are cited to offset the hazard.

(1) **Pres. Eisenhower stands behind Nixon.** It was Eisenhower who told the Vice-President in the first instance to attempt a settlement. The result has the implicit, if not the explicit, blessing of the White House. Thus, the Vice-President gets the immediate glory and, if the long-range result is a sour one, he will need not to take all of the blame.

(2) **The steel settlement should mean a booming year.** High economic prosperity is an essential to Republican election hopes. The fact that Nixon can be directly associated with the one big step that would seem to guarantee it is, in the eyes of the Nixon managers, like money in the bank.

(3) **Steelmakers will be slow to break out with higher prices.** The Nixon people count on this. Tough price competition from abroad is one reason. But there's another real and valid one closer to home. Congressional Democrats are poised to leap quickly, and belabor the industry heavily, if steel prices go up across the board during the next few months. Washington does expect higher prices ultimately, but these and the "second wave" of wage and price increases in other industries are not expected to cause big problems between now and the November election.

A set of fortuitous circumstances, therefore, suggests that Nixon is in good position to escape serious political damage as a result of steel.

Nixon's next big goal: Closer identification with peace efforts. Some Republicans are suggesting tentatively that Eisenhower should take Nixon

WASHINGTON BUREAU
JAN. 9, 1960

along when he goes to the summit conference in Paris at mid-May. There is little chance of this happening.

Democrats may help the Vice-President in this area. The GOP is betting that the opposition will attack Eisenhower, probably on familiar grounds that he is mistaking locomotion for policy—that all the meetings and travels aren't really changing the international situation. If this happens, you can count on Nixon being the No. 1 GOP spokesman in Eisenhower's defense. This, the Nixon advisers think, will clearly identify the Vice-President at Eisenhower's side in this area and give him most of the political benefits that actually going along to Paris could.

Gov. Rockefeller still causes some concern among the Nixon entourage. There is little hope that the New Yorker can be lured onto the ticket as Nixon's running mate. But the Nixon group, with the Vice-President taking the initiative, has begun carefully to woo Rockefeller. Nixon wants, at the least, some kind public word from the Governor.

The Nixon group's argument is that Rockefeller "owes" the Vice-President that much—in order to soften the impact of the Democratic cries of "boss rule" that went up, and will continue, in the wake of the Governor's decision not to contest for the Republican nomination.

—•—

No new basic labor legislation will come out of this Congress. There is universal agreement among legislators that Taft-Hartley, as an instrument for dealing with national emergency situations, is totally inadequate. That is the big lesson Washington learned over again from the steel strike, which finally was the subject of a directed rather than a negotiated settlement.

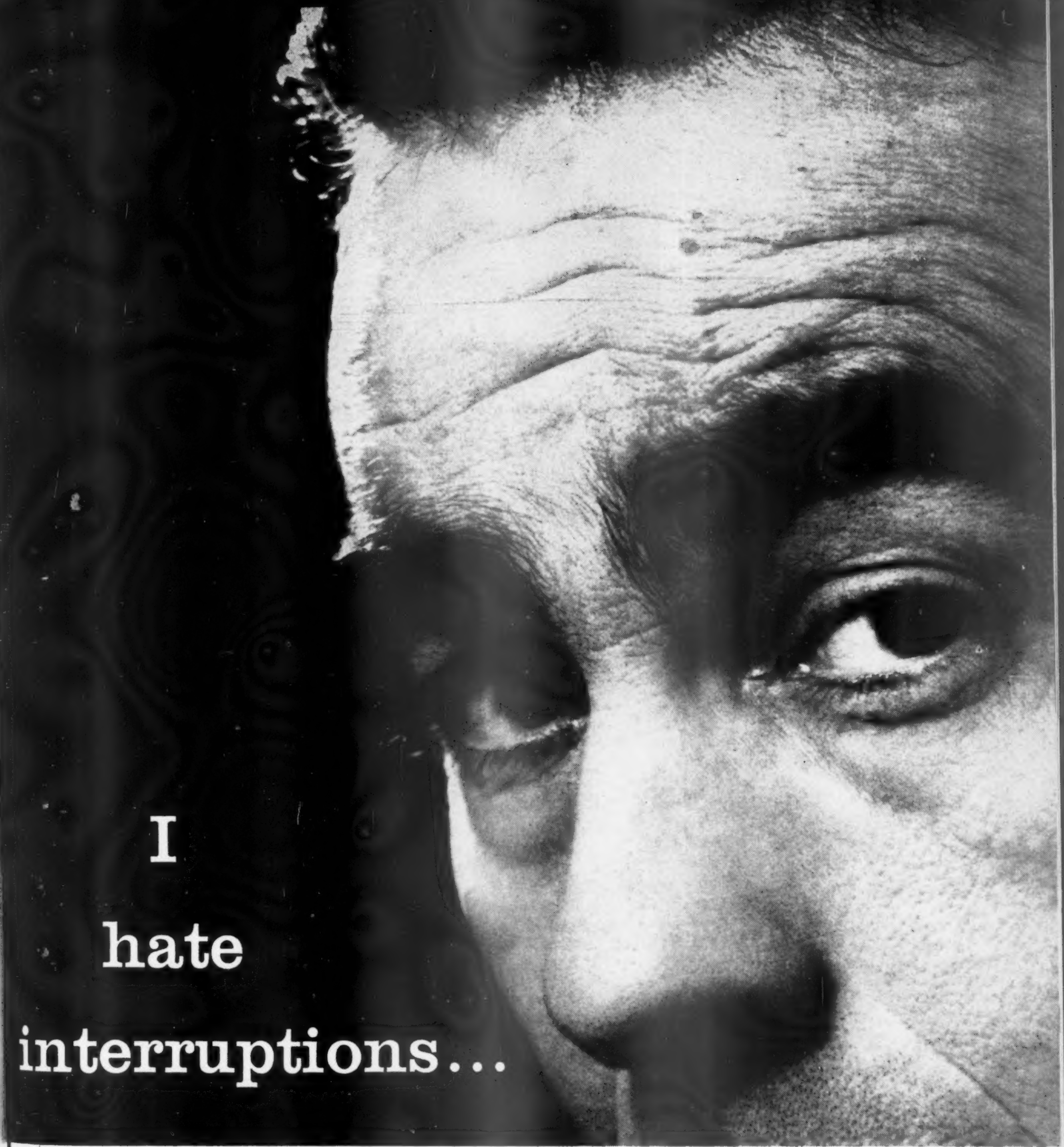
There's no appetite for a legislative hassle over amending Taft-Hartley. Sen. John F. Kennedy's Labor Subcommittee, which had planned to go into detailed hearings on the steel impasse, called off all its plans. There's still a possibility of some hearings, late in the session, on new emergency provisions for Taft-Hartley. But talk about this is only lukewarm. And all hands agree that, in any event, no legislation on the touchy labor issue will reach the floor in 1960.

—•—

The strike threat against railroads is fading. Inside reports say carrier and union negotiators now expect to work out a "featherbedding" deal that will provide a long-range solution. The idea: terminate outmoded jobs over a five- to 10-year period. Rail management has given up the notion of a smashing, immediate breakthrough against featherbedding. And the unions have come to the point of conceding that some of their employment practices are unrealistic.

—•—

The fight about interest rates prompts some second thoughts among Democrats. The feeling grows that the Democrats, as a last resort, will push through a resolution specifying that the Treasury has authority to sell long-term bonds at a discount. The prevalent view is that this seems to be the best way to allow the Treasury to transfer a larger share of the national debt into the long-term area while saving some political face for the Democrats in their continuing refusal to erase the statutory 4¼% interest ceiling. The Treasury can sell bonds at a discount now, but the Administration feels this would be a "back door" method of getting around the ceiling.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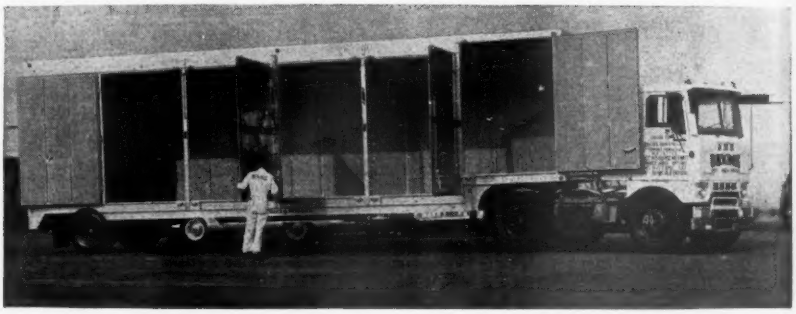
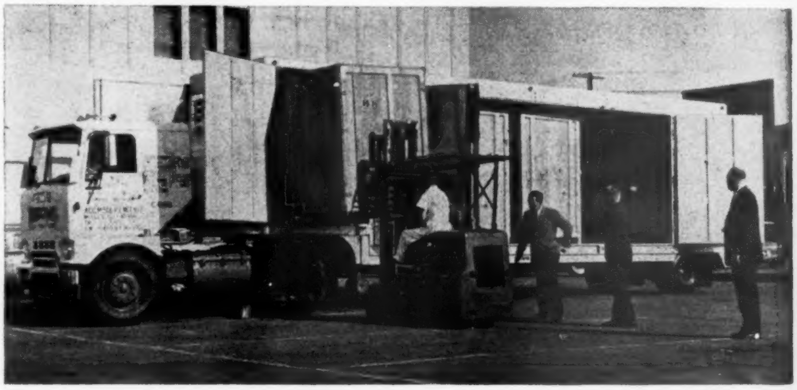


Moving Van Opens Wider . . .



To Take Cargo by the Roomsful

A new moving van has a whole side of doors that not only open wide but also come completely off, along with the side sections between them (pictures). It was developed by Aluminum Body Corp. of Montebello, Calif., for Bekins Van & Storage Co. of Los Angeles.

Bekins has ordered eight of the custom-built 35-ft. vehicles. They cost $8,500 apiece—about one-third more than conventional models—but Bekins feels it will gain more than that by more efficient use of "containerization."

• **Unique Loading**—With the doors swung back, 5x7½x7½-ft. containers can be lifted in or out by fork-lift trucks. Each container weighs 2,000 lb. when fully packed, and two hold all the furnishings from an average two-bedroom house. These containers cannot be handled by conventional vans, but one of the new Bekins rigs will take six.

With the doors and side sections removed, the van side is completely open and large cargoes—such as big pieces of machinery—can be loaded easily. This required designing the van with some 25 ft. of unsupported floor span between the axles, in contrast to conventional designs in which the sides support much of the load. Aluminum Body Corp. solved this problem by running double steel "I" beams the full length of the trailer, under the floor, and building solid steel sections into the roof portions that curve down to the doors.

• **Changing Storage**—Bekins, which cooperated with Aluminum Body on the design of the new vans, is revamping some of its warehouse operations to handle the containers. Bekins believes the current trend to containerization in trucking will be speeded up if operations of such vans live up to test results. It expects savings from more efficient use of van space and less handling of each item—which should also mean less damage to customer's goods.

Year-Round Car Coolant

An all-year-round coolant for car engines has been developed by Dow Chemical Co. It will do the combined work of antifreeze, water, and rust inhibitors and will eliminate seasonal draining, according to Dow: Once filled, a car's cooling system needn't be touched for a year. Made of diethylene glycol, ethylene glycol, inhibitor chemicals, and very pure water, it will protect a car from minus 40F up to 240F. Called Dowgard, it will sell for $8-$12 a fill. END


Another way Underwood
masters the art of sharing ideas

RESEARCH

Scientists Strut

Superior beings in other worlds, new evidence of what causes lung cancer, life in a test tube—these were some of the things discussed by the American Assn. for the Advancement of Science this year.

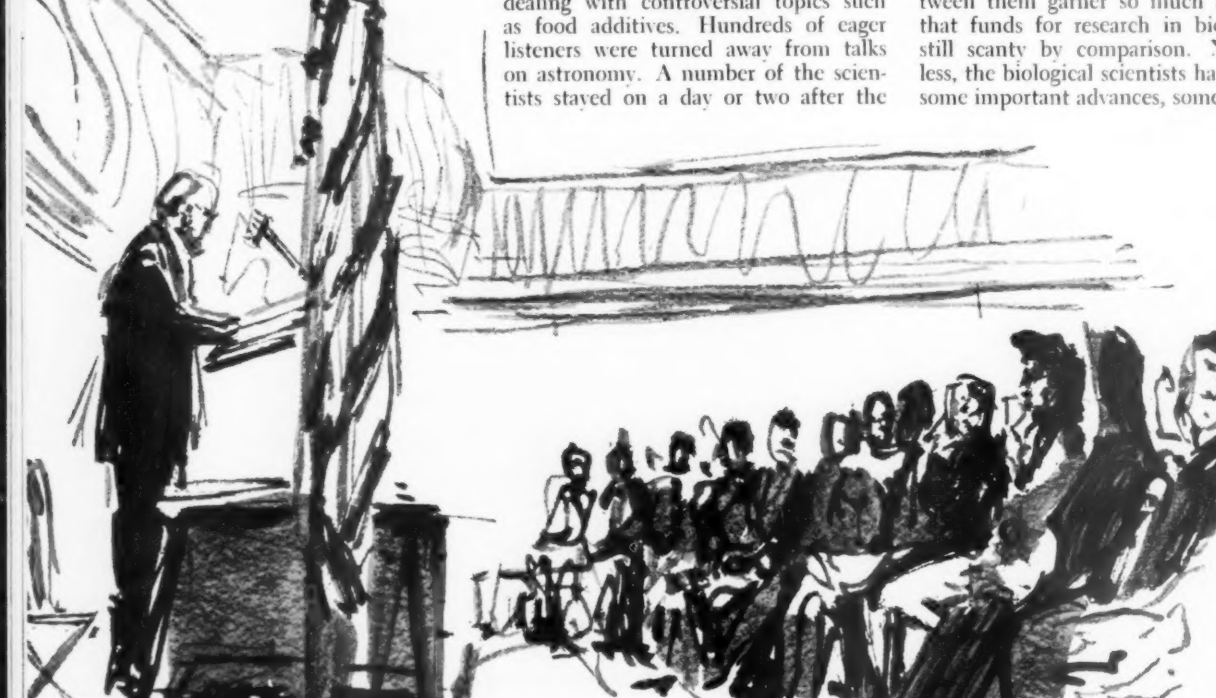
Like the spokes of a wheel nearing the hub, the scientific disciplines are growing closer and closer together.

This trend was frequently in evidence during last week's six-day scientific talkathon in Chicago—the 126th annual meeting of the American Assn. for the Advancement of Science. For the occasion, more than 6,000 scientists, engineers, and educators came to town and spilled over from the headquarters hotel, the Morrison (top left), into four others.

Instead of observing rigidly the traditional barriers between the sciences, represented by 103 member societies of AAAS, this year delegates seemed to move more freely than ever into foreign fields. Criminologists, for instance, sampled sessions on astronomical findings. Noted virologists listened attentively to papers on the evolution of life. It was standing room only at meetings dealing with controversial topics such as food additives. Hundreds of eager listeners were turned away from talks on astronomy. A number of the scientists stayed on a day or two after the sessions in their own fields to hear papers in other disciplines.

• **Enthusiasts**—The explanation for all this crossing of boundaries is, of course, that a major discovery in one field can now, more than ever before, be significant for researchers working in another. But also, with the strides of science front-page news, the scientists themselves have caught new interest in fields other than their own, particularly in the latest findings of physics, astronomy, and mathematics. At a few of the AAAS sessions on astronomy, lively question-and-answer periods delayed luncheons as much as an hour and a half.

The popularity of meetings such as this attested to the continuing eclipse of the biological sciences—with the notable exceptions of virology and cell chemistry—by the physical sciences. Nuclear physics and space science between them garner so much attention that funds for research in biology are still scanty by comparison. Nevertheless, the biological scientists have scored some important advances, some of them



Famed evolutionist George Gaylord Simpson, retiring president of AAAS, on Darwin's heritage.

Their Stuff

bringing man close to an understanding of the nature of life itself, and of all the strides reported to the AAAS, these rate among the highest in general interest.

I. Of Men on Earth and Mars

One of the most fascinating revelations dealt with life on other planets and stars. Earthmen probably won't bump into their "cousins" from outer space for generations yet, but when they do, they are very likely to feel inferior to the spacemen. So says Dr. Hermann J. Muller of Indiana University's zoology department, who won a Nobel Prize in 1946 for his work in genetics.

Muller is sure such life exists, because the raw materials that combined to form earth's men are also present in space. Life on other stars, however, would probably be different in biochemical structure, he says, since the evolutionary process would probably have been different there. But all the latest astronomical evidence makes it likely that man will someday come face-to-face with other intelligent beings in space, living in a temperature range between freezing and boiling points of water, in an atmosphere deriving its energy from sunlight.

The "men" who live on one planet or star have probably not had contact with those on another, though, Muller thinks. Their cultures are too enormously far apart.

• **Noxious Fumes**—Another Nobel winner, Dr. Wilhelm C. Hueber of the National Cancer Institute in Bethesda, Md., reported that the most recent research studies blame smog-ladened air, polluted by industrial wastes and auto exhausts, as the No. 1 cause of lung cancer in the U.S. today. Industrialization is probably contributing to the rising toll of other kinds of cancer, too, he believes.

However, Hueber didn't exonerate cigarettes. Small amounts of cancer-causing agents can be found in cigarette smoke, and—probably more important still—there is growing evidence to suggest that cigarette smoke acts as an irritant, interfering with the lungs' natural defense against carcinogens in polluted air.

An upsurge in lung cancer can be shown, Hueber claims, between 1900 and 1920—before cigarette smoking was widespread. Today, lung cancer is most frequent in large cities with the most industrial pollution. And, to cap the argument, air pollutants from the U.S. city with the highest incidence of lung cancer (which he refused to name)

Thousands of scientists attended annual Science & Industry show.

Men in the Spotlight at AAAS

Chauncey D. Leake: president-elect.

Wendell M. Stanley: viruses and cancer

Lee Du Bridge: science teaching.

Leontine Goldschmidt: the aging process.

Sidney W. Fox: the origin of life.

Glenn L. Jenkins: food additives.

Edward Anders: meteorites, asteroids.

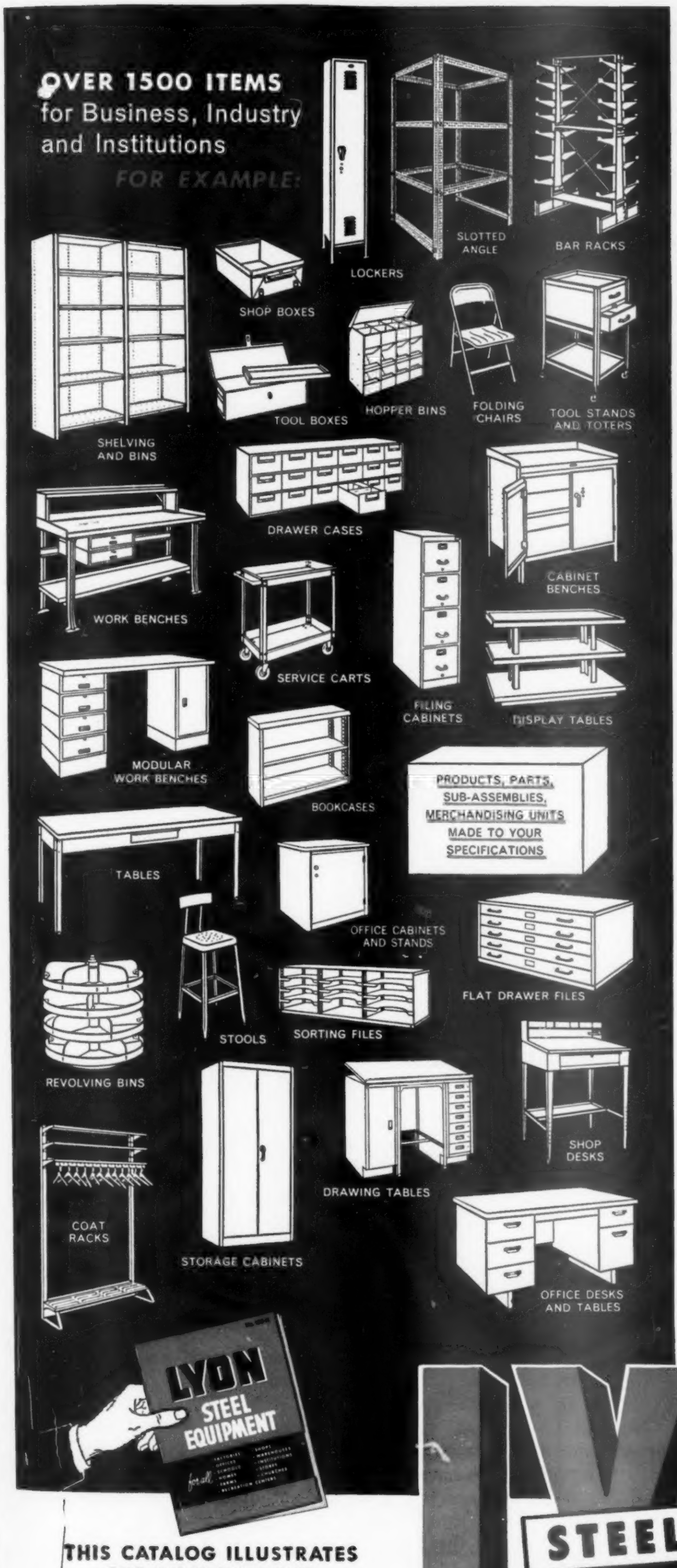
Friedrich Wassermann: electron microscopy.

caused the most lung cancer in mice.

• **Life in a Test Tube**—With the help of new tools, including the electron microscope, other scientists are moving closer to the synthesis of living matter in a test tube. This was indicated by Dr. Sidney W. Fox of Florida State University's Oceanographic Institute. Fox said he has been able to use heat to bring about complex reactions between amino acids—the fundamental building blocks from which all proteins are made.

Chemists—among them Nobel Prize winner Harold C. Urey—have previously formed simple molecules in a similar way. But it's a tremendous step forward to form extremely complex substances with many of the properties of proteins. Fox adds phosphorous to the amino acid mixture so that the acids will combine at somewhat lower temperatures. When the protein-like material is dissolved in hot water and cooled, it forms billions of microscopic spheres very similar in appearance to the membrane walls that enclose bacterial cells.

• **Growing Old**—Scientists have also uncovered fresh knowledge about man's aging process and possible ways to



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Medical exhibits, including new plastic skeleton, were a crowd-stopper

control it. The most exciting recent discovery, according to Dr. Leontine Goldschmidt of the Creedmore Institute of Psychobiologic Studies, is that man ages unevenly rather than in a straight line. At critical times, such as childhood and late adolescence, a human being undergoes "aging crises," but he recovers from them quickly. During later crises, however, especially after age 35, his recovery is neither so fast nor so complete. During these crises, red blood cells are destroyed by heat faster than normally.

Dr. Goldschmidt cites as particularly remarkable the recovery of blood cells in man between the 60th and 70th birthdays—long known as a period peculiarly favorable for recovery from disease. The cause of this temporary reversal of the aging process is still under study. If it can be identified, the finding could be a vitally important breakthrough for medicine—especially if the factor applies to other organs such as the brain.

• **Never Night**—On the more fantastic side, Navy scientists reported they have been toying with an idea on how to eliminate night. The inspiration came from the planet Saturn, where there is no night.

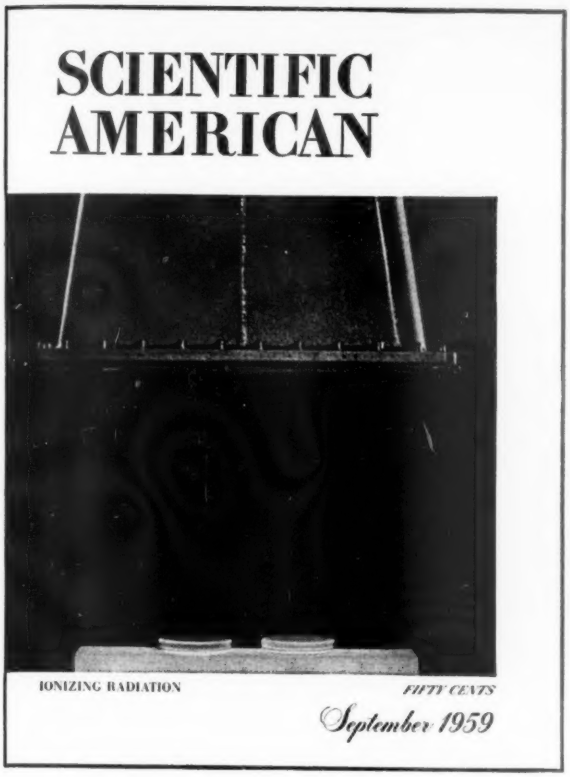
If current calculations are correct, said Dr. Herbert Friedman and Dr. James Purcell of the Naval Research Laboratory, eternal day could be achieved by artifically creating a thick layer of dust particles in the bank of cool hydrogen particles between the earth and the sun. This dust ring would, very simply and efficiently, do what its counterpart does on Saturn, absorb vast quantities of solar radiation and reflect it down on the otherwise dark side of the rotating planet. And if it were in a permanent rotating orbit, it would never have to be replenished.

The possibility came up in connection with a Naval Research Lab report on discoveries about the so-called "cool hydrogen bank."

• **Additives in Flux**—The meetings included a timely discussion of food additives, which must be tested and proved safe or removed from foodstuffs by Mar. 7 (BW—Oct.24'59,p113). Walter L. Obold of Drexel Institute of Technology frankly admitted that few additives are being investigated—and that practical methods for determining true safety are almost nonexistent today. Even under the best conditions, he said, establishing maximum tolerance levels for food additives is like fixing the beginning and end of adolescence: Everybody thinks he knows when it begins, but no one is sure when it's over.

II. Some Sobering Notes

Amid all the talk, a few of the scientists offered some reflections on the im-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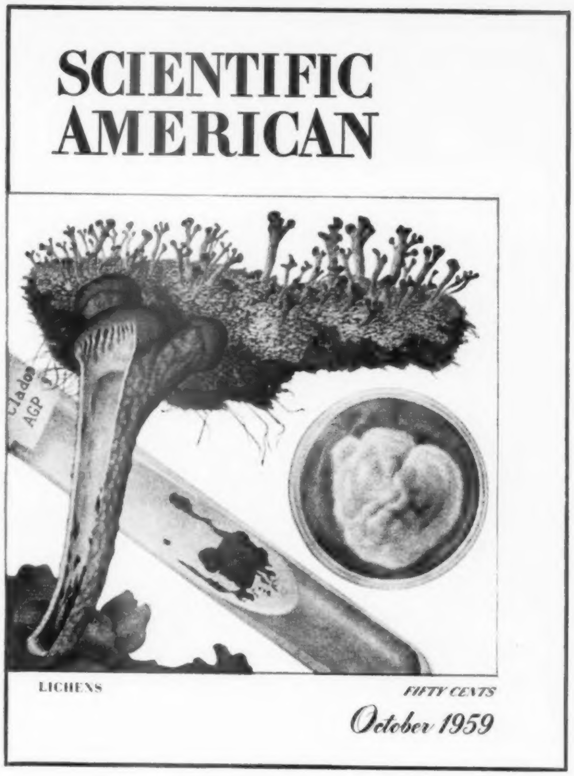
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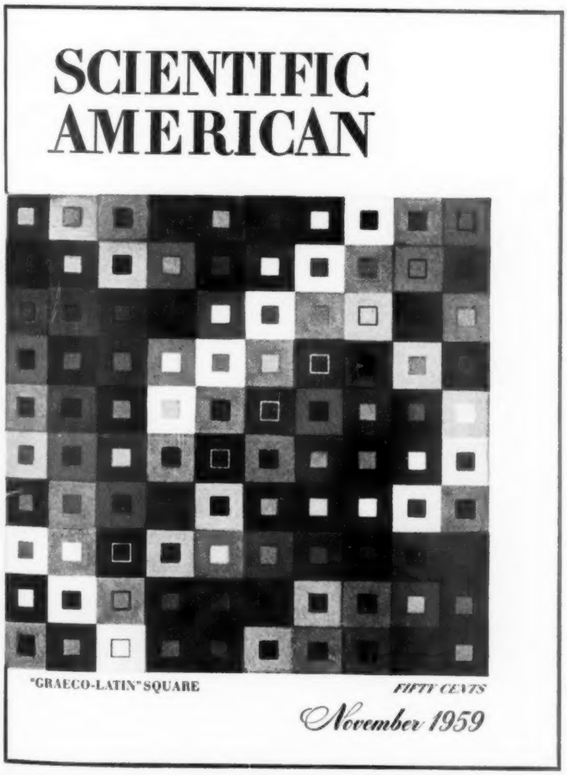
SCIENTIFIC AMERICAN
"GRAECO-LATIN" SQUARE
FIFTY CENTS
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SCIENTIFIC AMERICAN
METABOLISM OF THE CAMEL
FIFTY CENTS
December 1959


METAL
SERVING MAN FOR 150


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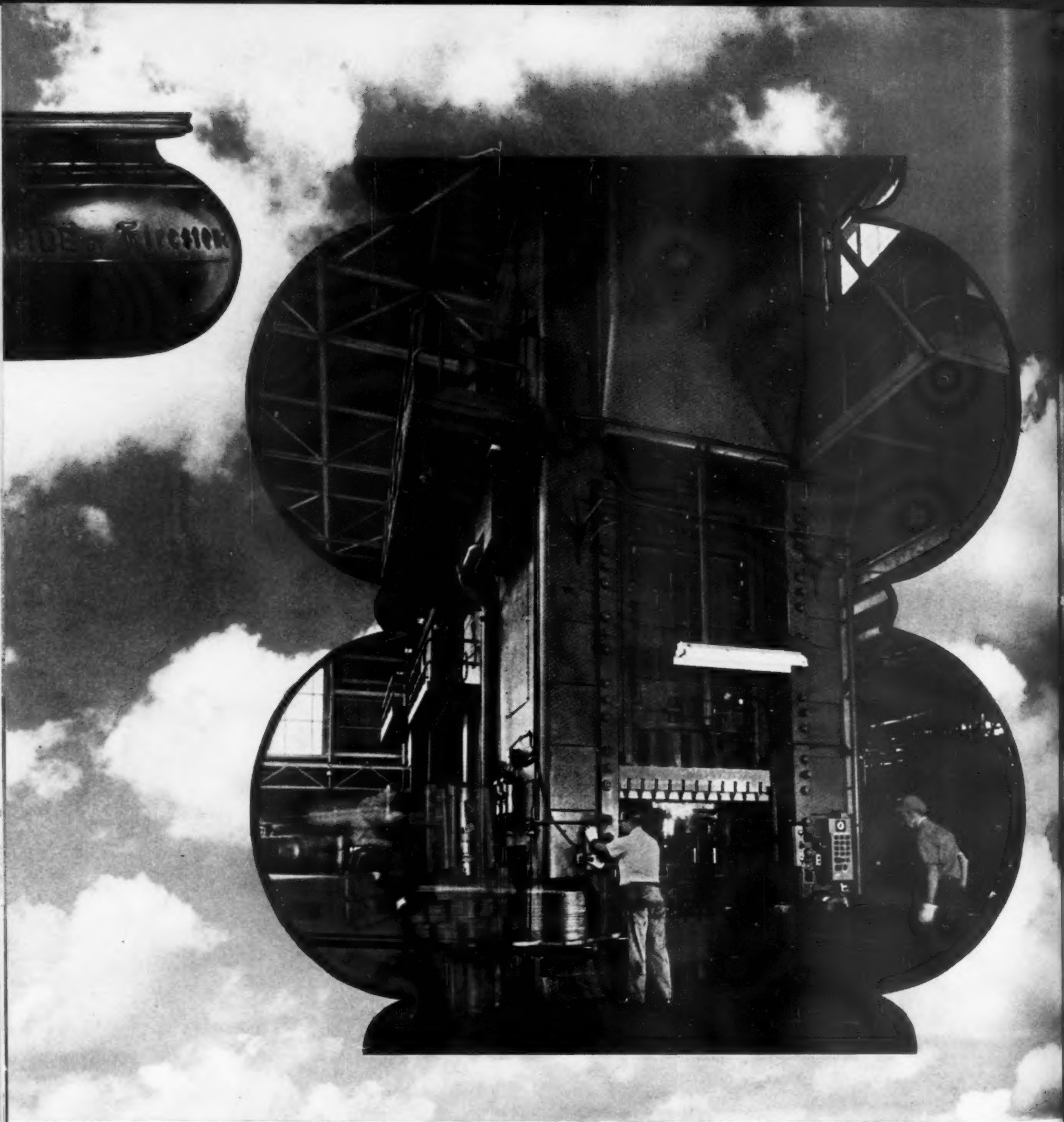


pact of their work on society and on the future—sometimes with disturbing conclusions.

For example, the eminent psychiatrist Dr. Karl Menninger, founder of the Menninger Foundation in Topeka, Kan., argued that his profession shouldn't testify as to the sanity or insanity of defendants in murder trials. As every self-respecting scientist knows, Menninger said, psychiatry as a science is still so nebulous that no practitioner can honestly claim to know whether a patient is insane or not. The best service a psychiatrist can offer criminologists at present, he added, is to apply modern case study methods to the evaluation of criminals.

Because of the limits of their science, therefore, psychiatrists should "end the bullfight spectacle" of murder trials in which one psychiatrist calls a defendant sane and the other brands him insane, Menninger declared.

• **Thinking Machines**—Perhaps more sensational yet, Dr. Norbert Wiener of Massachusetts Institute of Technology warned that machines may be able to outsmart man. "It is nonsense to assume that the machines man has made cannot outthink and perhaps outwit him," Wiener said. He called for a flat rejection of "the assumption that machines cannot possess any degree of originality." This assumption, he explained, "frequently takes the form of a statement that nothing can come out of a machine that has not been put into it."

Wiener, who began his graduate training at Harvard at 14, went on to state a firm belief that some machines can do and transcend the limitations of their designers—in a way that may be dangerous. Before long, he prophesied, machines will be able to program whole wars. Right now, he added, machines may have outstripped man to the point where they might produce results contrary to his desires and interests. END

MANAGEMENT

Film Textbook Builds Talent Pool at Armco

A mobile training program teaches plant superintendents (right) the fundamentals of management.

Over the next year, Armco Steel Corp. will put nearly all of its 5,000 managers—from vice-presidents to foremen—through the new film-and-conference training program pictured on these pages.

These films are important in two respects:

First, they represent an innovation in training technique. They are, Armco believes, the first management course ever put on film.

Second, they may turn out to be the answer to an urgent Armco problem. Few companies have ever tried to teach the principles of management to as many people as fast as Armco now feels it has to. The films alone cost Armco $200,000 plus a lot of top management and staff time. The company spent that money because it felt it was facing something of a crisis in management development.

• **Policy Is Threatened**—Right now, Armco is fighting off a major threat to its policy of promotion from within. That principle has been central to Armco's personnel approach for many years. "In top management down to the department head level, we haven't hired anybody from outside in years," says Pres. L. T. Johnston. That policy is good for morale, Armco thinks. It gives executives the incentive to do a better job. Most of all, it is a means of perpetuating Armco's own philosophy of management.

Chiefly, that philosophy stresses the importance of people. It is no coincidence that Armco's personnel department is called "personal relations." "We concentrate on the people who generate dollars instead of concentrating on dollars directly," Johnston says.

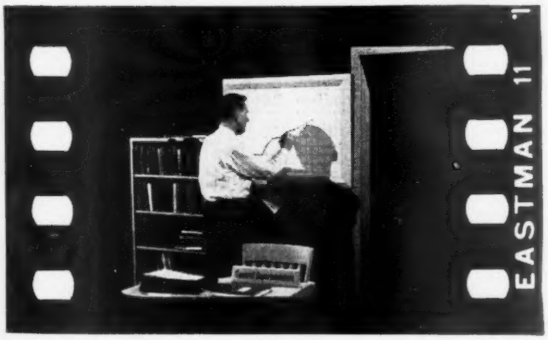
Over the years, this philosophy has been passed on from manager to mana-

1 Armco's new training films define management as getting results through other people.

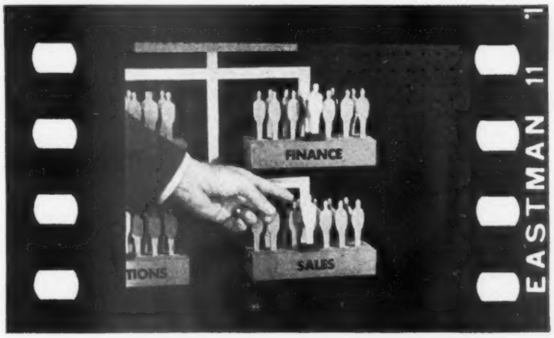
2 The films are billed as "a condensation of what you might spend three months learning at Harvard."

5 Conflicts between staff and line managers provoked lively discussion. One solution: "Call a meeting."

6 Trainees favored the carrot over the stick as a worker incentive. Films stressed the importance of motivation.

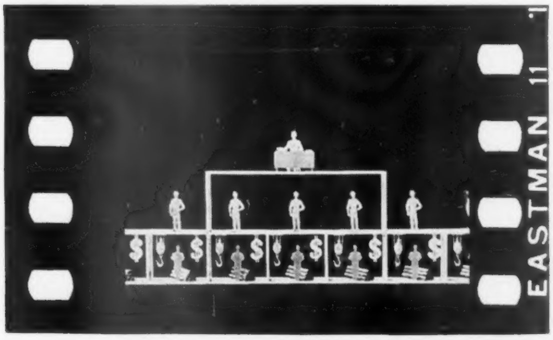


3 In training sessions supervisors agreed with film lecturer that "planning is the foundation of good management."



4 Some admitted, however, that planning is often neglected under pressures of day-to-day operating problems.

7 After viewing the films, superintendents said, "We knew all these things before, but not in an organized way."



8 Said one, "If I had had this when I was more ambitious, I might have been president of the company today."

ger on a face-to-face basis. That's why R. S. Gruver, vice-president for personal and public relations, says: "We think someone who grew up in the company is better equipped to handle a job than someone who is just a professional."

I. Armco's Problem

Three recent developments have put a lot of pressure on Armco's supply of home-grown talent:

• Three years ago, the company made 65 the compulsory retirement age for its top executives.

• Acquisition of two companies brought in more than 10,000 new employees.

• The company began shifting to a divisional management structure.

• Reaction to Retirement—Within 16 months after the new retirement policy went into effect, nearly a third of Armco's 80 top executives bowed out or died, and at least 30% more will be on the inactive list by 1963. The result has been turnover all down the line; a single vice-presidential retirement has triggered as many as 20 job shifts. Similar, though shorter, chain reactions followed the extension of compulsory retirement to the rest of the management group last year.

William Verity, director of organization planning and development, estimates that Armco will have to replace about 20% of its 5,000-man management team between now and 1965. And the total number of managers will increase by 10% if the company grows at the rate now projected for it.

• Growing Pains—Expansion since World War II has doubled Armco's ingot capacity to more than 6-million tons, and tripled its sales ($867-million in 1958). It now ranks fourth in the steel industry in sales and eighth in capacity. And it has nearly 45,000 employees in widely scattered locations all over the world.

A big chunk of that growth came in 1958, when Armco acquired National Supply Co., a $250-million-a-year maker and distributor of oil field equipment, and Union Wire Rope Corp., a $10-million-a-year wire manufacturer. These acquisitions brought in about 1,500 managers, none of them familiar with Armco's management philosophy.

• Divisional Setup—At the same time, Armco has been shifting to a divisionalized management structure. Soon the new acquisitions, two long-time subsidiaries, and the company's two basic steel-producing divisions will all be operating as self-contained units, each with its own management responsible for results on a profit-and-loss basis.

Thus Armco's need for experienced managers has been growing at the same time that it has been losing them right and left through retirement. All this poses a threat to Armco's promotion from within policy.

• Training Conscious—That policy, Armco has always recognized, carries with it an obligation to train people—so Armco for years has been long on training programs. Last year, a fourth of its employees attended classes of some sort. Managers get counseling from their bosses in appraisal interviews, are sent to university and association management development programs, are encouraged to study for advanced degrees, and are offered courses ranging from public speaking to cost control. As early as 1928, Armco was teaching management theory to its foremen.

And Armco does more than train. To make sure that nobody is overlooked when an opening comes up, it maintains an elaborate management inventory system. Personal data and results of performance appraisals for every manager are on file at headquarters, cross-referenced on IBM cards and available on 30-seconds notice. When a division needed a man with degrees in both metallurgy and law—not a common combination—a quick card run turned up seven candidates.

A couple of years ago, Armco decided that all these aids were not enough. Verity's department drew the assignment of figuring out a way to train more people faster.

II. Solution That Failed

The first plan was to bring supervisors into headquarters at Middletown, Ohio, in groups of 20 or so, for six days of training. The trainees would spend four days hearing the company's top executives explain their departments' operations and two days listening to lectures on management theory by an outside authority.

The management committee liked the idea, but asked for a dry run. Louis A. Allen, management consultant of Palo Alto, Calif., was hired to lecture on management; the members of the management committee made up the rest of the faculty and also the student body.

• A Flop—The experiment was a flop. Allen went over well, but the vice-presidents' talks were "the driest thing you ever sat through," Chmn. R. L. Gray reports. Besides, the proposed program didn't cover enough people.

"We don't want to become so provincial we simply fence in our ignorance," says Gruver. "But we are proud of Armco's heritage." To preserve that heritage, it needed to indoctrinate all its managers, not just a chosen few.

To do that on a centralized basis would take too long. "Half of them would have died before we could get

them here," says Gray. Even General Electric Co., which has its own management development institute at Crotonville, N. Y., has put only a little more than 1,000 executives through the course there in four years. Lately, GE has been stressing decentralized training at plant locations.

III. Film Solution

Decentralization seemed to be Armco's answer, too. That's why it turned to a mass medium. The company hired Jam Handy Organization, Inc., Detroit film producer, to turn Allen's lectures into six black-and-white 16-mm. films totaling about 3½ hours in length. By jazzing them up with visual aids and case studies dramatized by professional actors, the producers, says Verity, did a tremendous job of making management theory interesting.

• **New Textbook**—Most company training departments use movies to supplement live presentations. But nobody, so far as Armco knows, has ever before filmed a complete set of lectures summarizing the principles of management.

Actually, the movies themselves are nothing more than an easy-to-take textbook for the program, which Armco calls The Profession of Management. The lessons they teach will be debated and applied in small-group conferences led by the trainees' own bosses. The films, says Gruver, "are only the shell in which the conference meat fits."

But they make the program both portable and flexible. Relieved of any need to make speeches, and armed with a fat conference manual as a guide, any line manager, the hope is, can teach the course. Yet in the discussion sessions he can adapt it to local conditions or angle it toward his own department's problems.

• **Official Summary**—At the same time, the films provide an official summary of Armco's management philosophy. Their content is conventional—planning, organizing, leading, and controlling, with emphasis on initiating, communicating, and decision-making. It is, says Johnston, "a condensation of what you might spend three months learning at Harvard."

But the procedures described in the films are Armco's own. So is the stress on human relations. To make sure, every member of the management committee went over the text twice. Gray warned his vice-presidents: "This material will . . . become a permanent expression of Armco's management concepts and principles, which you must be willing to apply in managing the operations under your direction."

To give trainees an over-all picture, Armco added a 45-min. color film describing its history, organization, and

operations. Verity's staff whipped up manuals, case studies, and sample homework assignments.

• **First Graduates**—Typically, the course is to be given in a dozen two-hour sessions spread over several months, usually on the trainees' own time. Each film is to be shown twice, with discussion between; each trainee gets a copy of the scripts.

So far, only the corporate vice-presidents, a dozen divisional training representatives, and a handful of plant supervisors have completed the course. A few hundred others, ranging from divisional vice-presidents and Armco's top European managers to the foremen in its Butler, Pa., plant, have had a session or two.

• **Reception**—The performance of the managers who lead the discussions will determine the program's success, Gray says. Both he and Johnston think it's vital that line managers teach the course to their own people instead of leaning on training specialists. Partly that's to take advantage of old-timers' experience before they vanish from the scene. Partly it's to get more people into the act—"like making a complaining member of the country club manager of the house committee," says Johnston. And partly it's to restore the personal touch that Armco lost by mechanizing the program.

The manager-teachers are enthusiastic—even those who aren't afraid to say what they really think, says Johnston. Armco International Corp. Pres. A. R. Edwards will conduct sessions for English-speaking managers from 11 Latin American countries in Buenos Aires this spring. Hoping to turn the classes into problem-solving conferences, he will ask the participants to bring up their own operating headaches. These men, in turn, will take dubbed-in Spanish and Portuguese versions of the films back to their own subordinates.

Research Vice-Pres. T. F. Olt thinks the course will help his scientists get their ideas across to sales and operating people. He also expects it will teach his younger supervisors to think of themselves as managers; many don't take the time to make proper use of their subordinates.

• **But No Miracles**—Armco is counting on the new program to define management for its managers and get them all speaking the same language. The company believes each one will be helped to perform better in his present job. And it hopes that some will be helped to prepare for better jobs.

But nobody is expecting any miracles. This is "not a new vitamin capsule," says Gruver. The results will be hard to measure, and Armco doesn't plan to try. If the company keeps on growing and promoting from within, everyone will be satisfied. END

In Marketing

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Old Clockmaker Stops Its Timepieces; Elgin Parries Foreign Competition

A venerable watch and clock manufacturer closed the doors on this part of its business last week. New Haven Clock & Watch Co., in business for over a century, released personnel working on consumer lines, will keep only its profitable condenser operation going.

Meanwhile, Elgin National Watch Co. celebrated the holiday season by announcing that it had stepped out of red ink into black with the third quarter. Earnings for the first 40 weeks came to $180,000, against a deficit of just over $1-million in the same 1958 period. Third-quarter earned income came to over $900,000 this year.

Elgin officials credit much of this turnabout to a new, 17-jewel watch line introduced last spring: the Starlite, retailing from $19.95 to $29.95. This was a direct effort to parry the competition of imports and pin-lever watches. The Starlite, a home-grown product, replaces a line made with Swiss works, selling at the same price.

The company designed the line to strike a vulnerable area in imported watches. Other things being equal, tariffs are higher on smaller watches. So, the Starlite is a small watch—hence a lady's watch, with the teenagers a prime target.

Elgin isn't saying that it cut profit margins to meet import prices, but, Pres. James G. Shennan has conceded, "We are depending on fast over-the-counter movement for dealers, distributors, and ourselves to make a fair profit." The third-quarter estimates indicate the plan has worked.

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Manufacturers Keep Pressure on Retailers To Stress Quality, Soft-Pedal Price

Manufacturers' efforts to downgrade price as a selling tool (BW—Jan.31'59,p45) are still continuing.

Sunbeam Corp. last week told its distributors of a new "Quality Only" program for local advertising programs of its Electric Appliance Div. **Starting Jan. 4, Sunbeam is reimbursing dealers from their earned advertising allowances only if dealers' ads stress quality of Sunbeam appliances and do not indicate prices.** A few promotional specials, which the company will indicate from time to time, are the only exceptions to the new rule.

Ads may, however, state the dealer's credit terms—unless they also indicate his total selling price; they may invite consumers to "shop and compare the dealer's low prices"; they may say that the dealer meets any locally advertised or actual store prices.

The letter emphasized that a dealer may continue to price his products as he sees fit.

The plan does not apply to the West Coast. In that area, Sunbeam is still using the program it set up a year ago when it switched to consignment selling there on a test basis. For this region, "off-premises" advertising that cites unreasonably low prices is taboo. When the company tackled bait pricing on a wider basis, however, it took a different tack. The reason: Sunbeam explains that the Bureau of Consultation of the FTC expressed the opinion that floor pricing plans probably violate the Robinson-Patman and FTC Acts.

General Electric Co., whose Housewares Div. also will not reimburse dealers for advertising prices below certain minimums, says its program is still going strong.

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Antitrusters Sue to Prevent Merger Of Sohio and Leonard Refineries

A proposed merger between the Standard Oil Co. (Ohio) and Leonard Refineries, Inc., of Alma, Mich., has drawn the fire of the Justice Dept. In a Clayton Act anti-merger suit filed last week in Detroit, the government charges that an Oct. 12 agreement, by which Leonard would be merged into Sohio, may substantially lessen competition or tend to create a monopoly. **The government requested an immediate injunction to bar the proposed merger until the courts decide whether to O.K. it.**

According to the antitrusters' charges, Leonard is the largest independent petroleum company in Michigan, with sales of around $55-million last year. Sohio, ranked No. 14 in industry refining capacity, is one of the biggest integrated oil companies, with gross income of about $400-million. Leonard and Sohio are in direct competition, says the government, both in refining and marketing petroleum products.

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Rogers Decries Broadcasting Scandals, Says Agencies Have Power to Curb Them

The Justice Dept. has pronounced the official government attitude on what's to be done about broadcasting. It came when Atty. Gen. William P. Rogers, at the request of Pres. Eisenhower, reported on the meaning of the quiz show and payola scandals.

Rogers' report abounded in phrases like "spectacle of corruption" and "gigantic hoax," and reraked much of the muck turned up by the investigations. But it made few specific recommendations. **Basically, Rogers felt, the problem is one of morality, not laws.** "So far as the law is concerned," he said, "both FCC and FTC have authority to eradicate most, if not all, of the deceptive and corrupt practices in broadcasting which have been disclosed—particularly if the agencies are accorded the full cooperation of the broadcasting industry."

Three changes were recommended by Rogers:

- Bringing the networks, as well as stations, under FCC licensing authority.
- Making that authority more flexible by empowering the agency to suspend licenses temporarily, where now it has only the "ultimate weapon" of permanent revocation.
- Curbing payola by making it a federal offense for a station employee to accept payment for surreptitiously plugging a product.

INTERNATIONAL OUTLOOK

A BUSINESS WEEK SERVICE

Pres. Eisenhower's tour of four Latin American countries late next month should help ease hemisphere tensions. Eisenhower may be able to revive somewhat the spirit of Pres. Roosevelt's "Good Neighbor" policy—still remembered warmly by Latin leaders. That kind of top-level public relations matters a lot in the U. S. dealings with Latin America.

The President's marathon tour of 11 countries, from Spain to India, forced the new trip to Latin America. Latin countries repeatedly have complained about not getting top attention. And, during Eisenhower's Asian swing, the complaints grew louder.

Now Brazil, Argentina, Chile, and Uruguay (mostly a side stop) will play host. **Reports from their capitals indicate the reception will be warm.**

Eisenhower faces a situation different from the one confronting Roosevelt. In the 1930s, Latin America's economic and social revolution was just getting started. **The U. S., also undergoing major changes, appeared as the champion of such reforms.** But today the U. S. seems to be in a period of relative stability—while Latin America is bubbling with revolutionary ferment.

Latin governments have complained to Washington, louder than ever, that:

- **The U. S. doesn't give enough economic assistance.** The $1-billion Inter-American Development Bank hardly meets needs—say Latin Americans.
- **Private U. S. investment is no adequate substitute for government aid.** Some Latin politicians even say that U. S. investors take more out in profits than they put in through new investments.

Then, nationalism—with anti-Yanqui overtones—is on the rise in most countries. Cuba's Premier Castro is helping feed nationalistic feeling at the grass-roots level throughout Latin America.

Worse yet, tension between Latin countries is mounting. For instance, free-spending Brazil resents the popularity that Argentina—saddled with an austerity program—has won in Washington. **Oil-rich Venezuela is annoyed over Brazil's imports of Soviet oil.**

Eisenhower's tour won't produce miracles, of course. It may even bring the new problem of raising Latin expectations too high.

In Rio, he can show our support for Pres. Kubitschek's "Operation Pan America"—the program for speeding the pace of Latin economic development. In Buenos Aires and Santiago, he can openly applaud belt-tightening measures of the Argentine and Chilean governments.

Beyond that, Eisenhower may succeed in setting a new tone for closer U.S.-Latin American cooperation. That in itself would be an accomplishment.

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U. S., Canada, and 10 West European countries will tackle serious trade-and-aid problems in Paris next week. The meeting of the "Atlantic economic community" is the first followup to last month's summit conference of the Western Big Four. **Main purpose is to try to bridge the differences between the six-nation Common Market and the seven-nation European Free Trade Assn. (EFTA).**

Washington isn't counting on much solid progress. The Six and Seven seem more eager to win U. S. support for their respective positions than to reach an early compromise. EFTA, for one, openly complains that Washington hasn't given it enough backing.

U. S.—and particularly Under Secy. of State Dillon—will be on the hot seat. Dillon will have to avoid taking sides, and press instead for some compromise. That way, the U. S. will stand a better chance of protecting its interests against any European trade discrimination.

What's in the cards is a series of meetings during the months ahead. The conferees next week probably will form a study group or special economic council—with the U. S. and Canada holding full membership. **It would more or less assume the role in solving economic problems that's now played by the OEEC** (Organization for European Economic Cooperation).

Europe's trade rift won't be the only headache. **Another major trouble for the U. S. is how to get Europeans to share more of the economic-aid burden.** Britain already is committed to a large program, mostly for Commonwealth countries. West Germany has gold and foreign exchange to spare—but not much in the way of physical resources.

In fact, the question now raised by Europeans is whether a central coordinating agency can handle aid to underdeveloped countries better than individual governments.

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Africa will be a hotbed of political developments—possibly even explosions—this year. That's why Prime Minister Macmillan left this week for a month-long tour of British and Commonwealth areas there.

Nationalism is spreading much faster than most Britishers (as well as French and Belgians) had expected. It's raising tough, long-range questions, such as how to prevent violent rivalries among the new African nations and how to protect white populations under African-dominated governments.

Here, briefly, is what Macmillan will see: British West Africa is close to full independence. Ghana already is on its own (and trying to dominate its neighbors). Nigeria is about to become independent. East Africa—especially Kenya—is demanding the same freedom. To the south, the Federation of Rhodesia and Nyasaland seems certain to break up.

On top of that, South Africa isn't swaying one bit from its iron policy of keeping the Africans down.

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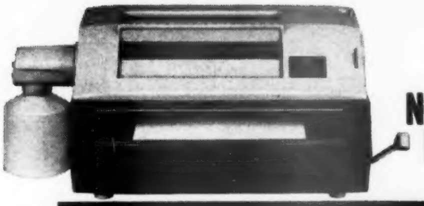
Pres. Nasser's project to build the Aswan High Dam is shaping into a new East-West race to give economic aid to underdeveloped countries.

Construction of the first phase begins this week. **And the Soviet Union has that in the bag**—with $100-million and technical teams on loan to the United Arab Republic to handle the four-year job.

Now other countries are scrambling to work on the second stage (beginning in 1964). Engineering firms from Britain, West Germany, Italy, Australia, and Japan—some with their government's backing—are bidding.

Moscow wants to win the second stage, too. It considers the dam the biggest Soviet aid project outside the Communist bloc. With so much propaganda value at stake, Moscow is sure to fight hard for the contracts.



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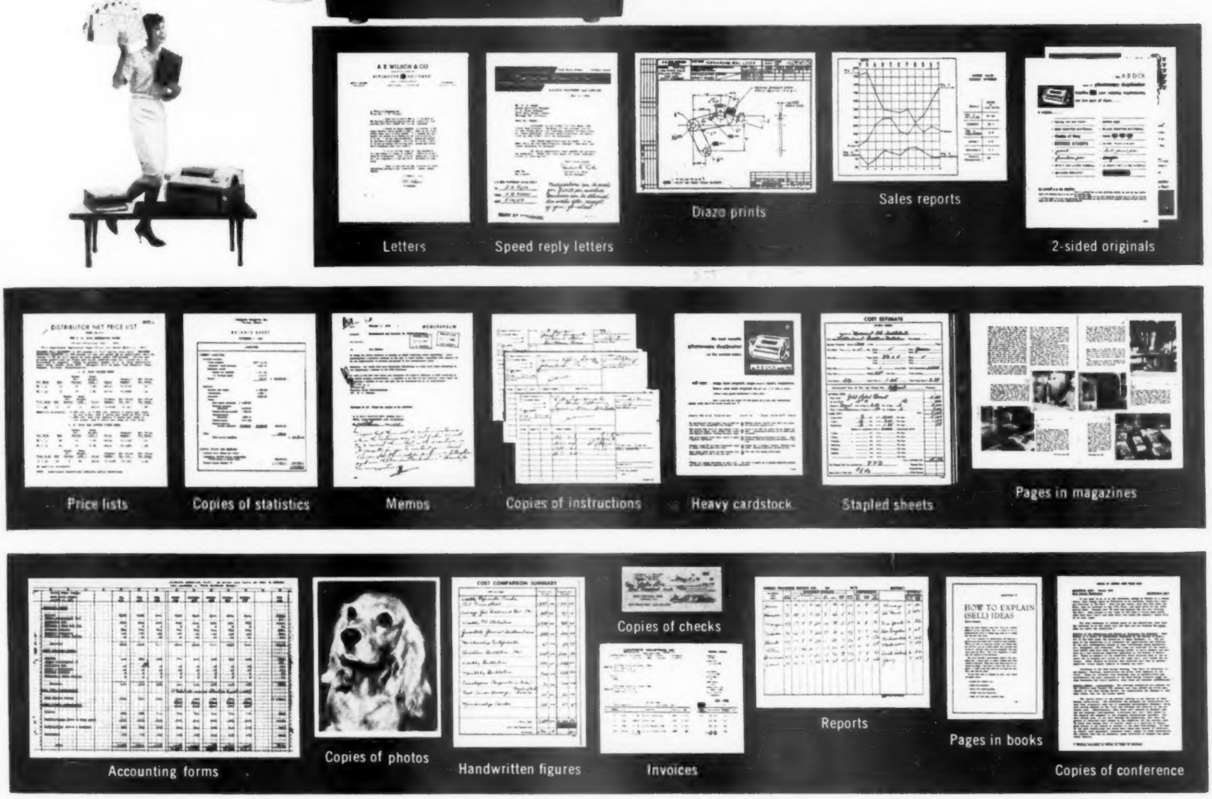

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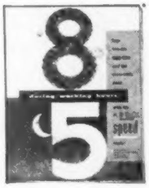

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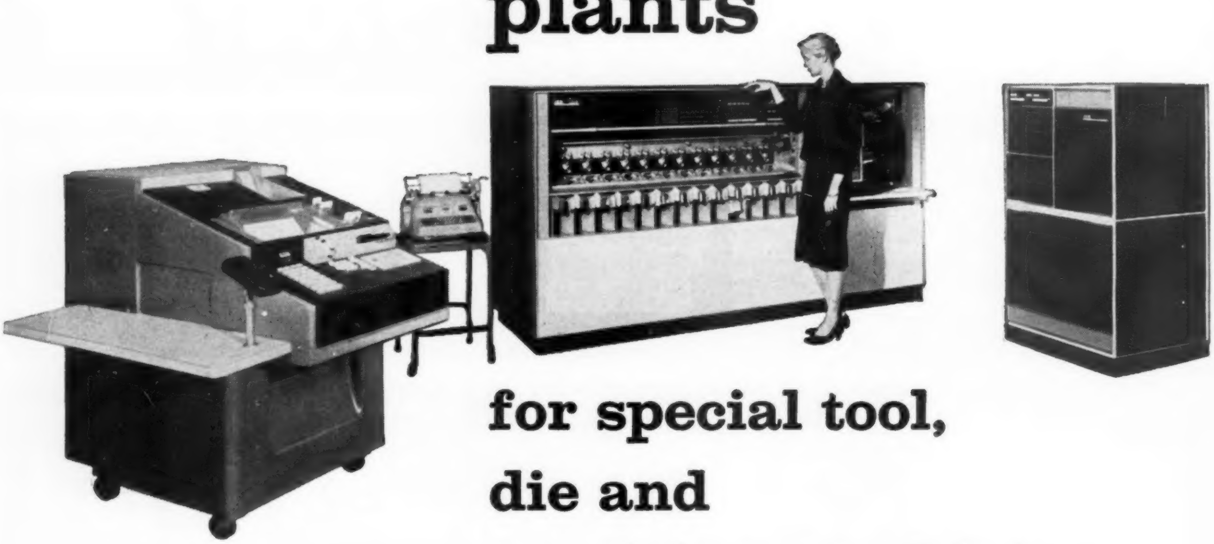

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BUSINESS ABROAD

New Plan to Boost U.S. Exports

Credit guarantees or insurance, both under study by the Administration, would make it easier for foreign customers to buy U. S. goods—and insure that the exporter got paid.

The Administration is now formulating a program to "insure" U.S. commercial exports against defaults or delays on payments by foreign customers. The program—a system of export credit guarantees or insurance similar to ones already set up by several West European countries—may become a key part of the government's drive to boost exports and thereby help improve our balance of payments position (BW—Jan.2'60,p63).

The basic idea is to make sure that U. S. exporters—or the banks which provide exporter credit—get repaid in part, even if a foreign customer defaults for business or political reasons. And the program, as the Administration sees it, would focus on exports going to underdeveloped but potentially profitable markets in Latin America, Asia, and Africa where exporters generally face larger risks.

Proposals for government short-term credit insurance or guarantees have popped up and been turned down in Washington for the past 15 years. During that time, most major exporting nations have adopted such plans. Britain, for one, has been operating one since the mid-1920s.

Now, the U. S. is closer than ever to backing the idea—in principle. But how such a plan would operate and just how much it will do to improve exports is far from clear. "There are literally hundreds of ways and combinations of ways the program could be set up," one official concedes.

• **Guarantees vs. Insurance**—As it now stands, Administration backers of the plan favor guarantees rather than insurance. The difference, in practice, is slight. Under an insurance program, the government protects a percentage of the exporter's total overseas business. Guarantees are usually limited to specific exports to specific markets—and give the government more direct control over the flow of exports.

If the government gets into the export credit guarantee business, it will likely do so through the Export-Import Bank, which extends medium- and long-term credits to foreigners to buy capital equipment and agricultural products from the U. S. Ex-Im does not now extend short-term credit.

Under the plan being discussed, a U. S. exporter could go to Ex-Im and buy a note costing about ½ of 1% per month to cover sales over, say, a 90-day credit, assured that the government would cover about 85% of any default.

The program would probably be limited to six-month credits (though it might be stretched out to one year) for "shelf-item" exports of consumer goods to selected markets in underdeveloped areas.

• **Source of Credit**—Backers of the proposal say such credit guarantees would put the U. S. exporter on equal footing with West European and Japanese competitors. Without export credit, the foreign buyer must either pay cash—which in underdeveloped areas he often doesn't have—or borrow from his own bank—which often charges him rates too high to make it worthwhile.

With the export credit guarantees, U. S. exporters will be able to offer their customers abroad the short-term credit they can't get or don't want at home. Today, many exporters and commercial banks in this country are reluctant to finance sales in foreign areas where they have not operated previously—unless they have some guarantee they will be paid.

Officials who favor the guarantee plan hope it will encourage more commercial banks to extend credit for exports.

• **Congressmen in Favor**—Federal guarantees for short-term credit probably will not require any major new legislation. Even if they do, Congress appears to be in a mood to go along. Political pressure to improve the balance of payments situation is strong in both parties. The Senate Commerce Committee is expected to provide a favorable forum, when it holds hearings on the plan early in the coming session.

Treasury Secy. Robert Anderson and Under Secy. of State Douglas Dillon also favor the idea. Most support comes from Henry Kearns, Assistant Secretary of Commerce for International Affairs. Says he: "The U. S. never before has had to trade to live, in the sense most of our foreign competitors have. Now we do. Exports may rise this year to $18-billion without this program. With it, we could easily reach $20-billion."

• **Some Skeptics**—Opposition to the idea is formidable. The skeptics, led by Export-Import Bank Pres. Samuel Waugh, question just how much additional export business the proposed program would generate. One official estimates as little as $50-million a year. Others say they want to be shown that U. S. exporters and banks want credit guarantees. But Ex-Im officials say that if the program is set up, Ex-Im should do the job.

BUSINESS ABROAD BRIEFS

American Motors may assemble Ramblers down under in Australian Motor Industries' plant. The company already assembles in Mexico and South Africa, now is negotiating with Australian Motor, which assembles Standard, Triumph, and Mercedes-Benz vehicles and also sells Fiat tractors.

Japan plans to float another $30-million bond issue here—probably next fall when interest rates may be lower. Government-owned Japan Telegraph & Telephone Corp. will issue $20-million; the government's development bank will issue the rest.

Brazil's wave of consumer buying hit a record level over Christmas—with most customers using credit instead of cash. Stores ran out of almost every consumer durable, including pianos. But to help the buying spree, the government put more money into circulation in December than in all of 1957. Result: The cruzeiro dropped to 200 per $1 on the free market for the first time.

Atomics International, a division of North American Aviation, is joining two French companies to form a new company—called Dynatom—to build and sell nuclear reactors in France and the French Community. Partners are Societe Alsacienne de Constructions Mecaniques, one of first French Companies to venture into nuclear research, and Chantiers de l'Atlantique (Penhoet-Loire), shipbuilder and manufacturer of boilers and turbines.

Oil refinery in Pakistan costing $35-million will be built jointly by Caltex, Stanvac, Shell, and Burmah Oil. The 32,000-bbl.-a-day refinery will save Pakistan an estimated $7-million yearly on imports of gas, aviation fuel, kerosene, diesel fuel, and industrial fuel.

Sud Aviation, French maker of the twin-jet Caravelle, is negotiating with United Air Lines for sale of a fleet of the short-range jets. United is interested in buying 25 Caravelles—if Sud Aviation will take some of United's piston aircraft as partial payment. The French company also is trying to interest Convair and Douglas Aircraft in acting as Caravelle sales agent in the U. S. and in building the plane here.

GOVERNMENT

Martin Girds for Titan Crisis

TITAN STANDS 90 ft. high, weighs 100 tons, is designed to carry a 7-megaton nuclear payload as much as 9,000 mi.

Martin Co.'s Chmn. George Bunker takes personal charge as big, complex ICBM reaches a crisis on testing.

This week, George M. Bunker, board chairman of the Martin Co. of Baltimore, set up shop in Denver to take personal charge of the company's Titan ICBM project. Test models of the 90-ft. Air Force missile (picture) are now being built at Martin's new \$53-million, 7,000-acre plant there (BW—Dec.5'59,p94).

The sight of a giant defense producer's chief executive taking over direct supervision of a single weapon development project is a remarkable one. Bunker's move, however, plays up the crisis of Titan, a trouble-plagued, top-priority project on which the Air Force has spent close to \$1-billion.

Since the 100-ton Titan was given a green light four years ago, Martin has delivered 31 missiles for testing. Exact figures are secret, of course, but the company apparently would be in line for orders of, say, a couple hundred production models if all went well, worth hundreds of millions.

I. Martin's Problem

What has made the board chairman take on the added job of plant superintendent is this:

Some Air Force officials say that Martin, which as Titan's major prime contractor accounts for about half the project's costs, has failed to follow authorized test procedures.

There hasn't been a successful Titan test-launching since May 4. The first Titan squadron is supposed to be operational by late 1961, but the program is badly behind schedule. The report is that, between the time the missiles came off Martin's assembly line and the time they showed up for firing from the Cape Canaveral test range, there was damage that left several in no shape to be launched. Martin's management of the project has been marked, one Pentagon official says, by "serious procedural bungles."

• **Still Hopeful**—All this is pretty rough talk, but top officials said this week there's no sign that the Pentagon plans either a cancellation or a cutback for Titan. "We still expect to achieve the Titan operational force level previously planned," says a high-ranking Air Force official. But the threat of a sharp cutback still lurks in the background.

It's obvious that the project is now under special Pentagon scrutiny—with particular attention on how Bunker clears up the management muddle.

Says an Air Force colonel close to the project: "There is nothing wrong with the missile's basic design. But we do have management problems. We have evidence that Martin personnel aren't as well disciplined as they should be in developing procedures and in adhering to them, once such procedures are established."

II. The Company's Reply

Asked about the situation by BUSINESS WEEK, Bunker said, "I can make no comment that would be helpful."

However, other Martin spokesmen denounce Pentagon criticism as "damning generalizations about a new bird which is going through the normal birth pains." They concede that missiles have been damaged after coming off the assembly line. Their count is that three have been damaged beyond repair in handling or on static test stand tests. In one case, however, where a liquid oxygen tank collapsed, they claim the accident resulted in "advancing the state of the art in pumping LOX into tanks under pressure."

Two damaged missiles, Martin reports, will be put together for use in training ICBM troops. Two other damaged Titans have been repaired for test purposes.

Martin says that any Air Force criticism of their management is "self-indicting," that the Air Force supervises every step in Titan's production. "We don't make these missiles in the back room with locked doors," says a company official.

• **Reputation at Stake**—Bunker's extraordinary step in naming himself Titan's general manager reflects the seriousness with which the company is attacking the problem. For Martin, Titan represents roughly one-quarter of the company's 1959 sales of at least \$500-million and of the \$830-million backlog reported last year.

Just as significantly, Martin's corporate reputation as a key defense producer is involved in Titan. Some top-echelon military officials make no secret over their dissatisfaction with Martin's management of the Vanguard satellite launcher and the ill-fated Seamaster jet seaplane projects.

Martin was one of the first aircraft goliaths to move into the missile field, and it no longer builds planes.

• **Junket Probe**—Martin has also been in Congressional hot water recently. The company was a prime target for the Hebert Committee investigation

into alleged influence-peddling on defense contracts. It was criticized for its munificence in providing expense-free golfing sojourns for military top brass at the plush Cotton Bay Club on Eleuthera Island in the Bahamas.

III. Titan's History

The Titan project has long been the center of controversy—not so much because of slow progress in developing the missile as because of its apparent duplication of the Atlas ICBM. It is certain to crop up as a hot issue in this years' Congressional debate over defensive policy.

For two successive years, there has been talk of Titan's cancellation. It has survived, however, much to the distaste of Air Force supporters of projects that were hard hit by budget economy measures—such as the B-70 and F-108 aircraft.

The project was started in 1955, when the Air Force had no giant rocket engines in operation, when inertial guidance systems were yet to be perfected, and when rocket scientists were still in the dark on reentry of ballistic missile nose cones. The first successful Atlas flight was still two years off.

Titan was begun as an insurance measure for Atlas. It was also designed as a more sophisticated ICBM than Atlas—with a simpler but more powerful propulsion system, with a potential of 50% greater range (close to 9,000 miles), 50% greater nuclear payload (seven megatons) and capability of installation in underground launching sites.

As the earlier Atlas proved successful and development of the next-generation, solid-fueled Minuteman ICBM was authorized, Titan's value has been minimized by those Pentagon critics who have gunned for its elimination.

• **Launching Record**—Still, the Titan project has its vigorous proponents within the Defense Dept.

They argue that Titan's test-launching mishaps are no more serious than those that have bogged down other missiles in early stages of development—including the Atlas itself, which has also been bugged by serious technical problems.

There have been six test-launching attempts so far for Titan. The first four, during February through May, 1959, were short-range successful flights. A fifth try on Aug. 14 failed when an umbilical line failed to disconnect during the launch. That missile exploded soon after leaving the launching pad, when the master control system shut off the engine.

On Dec. 12, a sixth launching was attempted. The missile exploded seconds after ignition when malfunction

of an electric relay set off the missile's safety-destruct system.

• **More Complicated**—Titan is a true two-stage missile, unlike Atlas, which has three engines that ignite simultaneously on the ground. There have been no successful tests in which the Titan stages have separated. But Air Force officials do not consider this a bottleneck, nor do they regard the two launching failures as major technical problems. Even now, an all-out effort is being made to develop a second-stage ignition system that will function in the extremely thin atmosphere where it will be fired. They are more concerned over frequent delays in the test-launching schedule.

IV. Its Future

Titan's supporters in the Pentagon defend the missile's role in the U. S. arsenal of missiles on two grounds:

• Titan's claimed performance superiority over Atlas (other Pentagon experts pooh-pooh this claim).

• Skepticism that the Minuteman's timetable of "initial operational capability" in 1963 can be achieved.

Besides, says one Defense Dept. official, "comparing Titan to Minuteman is like comparing a 16-in. gun to a 5-in. gun." The smaller Minuteman is designed to carry a one-megaton warhead.

• **Costly Already**—As the ICBM program shapes up, a greater volume of production for Titan is reportedly scheduled than for Atlas. Seven Atlas bases are under construction or have been authorized; five Titan installations have been announced so far. Under Pentagon nomenclature for such matters, Atlas is already considered "operational." A handful of Atlas missiles is now standing at Vandenberg Air Force Base, Calif.

The Titan project is typical of so many other military R&D projects: It has reached a stage of development where it would probably be almost as costly to cancel the program as to continue it. Martin was encouraged by fast write-off certificates for $3.2-million to invest $25-million of its own funds for structural work on the Denver Titan plant (the Air Force provided funds for production equipment, test stands, and related facilities), and the Air Force is sensitive on this point. Last week, Martin got one of the last fast amortization certificates issued covering $500,000 in R&D facilities at Denver.

Bases planned for Titan could theoretically be converted into Atlas installations, but in many instances, the costs would be prohibitive.

So the outlook is for continuation of the Titan program for the time being—with the Air Force breathing hard on George Bunker's neck to produce the results to justify this decision. **END**

In the Markets

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Stocks Move in Erratic Pattern
After Reaching New Peak at Yearend

The market averages behaved erratically this week, reinforcing the notion that the great bull market of 1958-59 is in an advanced stage. **A last-minute buying wave managed to lift the Dow-Jones industrial average to a new peak on the final day of 1959 trading.** Then, just before the first trading day of 1960, the steel settlement was announced, which produced a buying splurge at the opening.

In an earlier phase of the bull market, the settlement of the steel strike might have led to sustained demand, pushing up prices 5% or more before any pause. This week, though, the buying wave proved short-lived, petering out in the first hour. **On Monday, the averages actually declined, and though there was a spirited rise on Tuesday, the market turned down again the next day.** The rise in the average after three days trading was less than 1%.

This ragged performance does not mean that a decline is inevitable. **It suggests that the balance between buyers and sellers is much more even than it has been in a long while, and that the next move of the market depends on which group gains more strength.**

There is still plenty of money around for stock purchases, which means that speculative demand may once again catch fire. But it will take something special to stimulate this demand, for the market already expects a big improvement in business. There seems to be more chance that any unexpected development will be on the pessimistic side, causing a selling wave.

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Settlement of Steel Strike Triggers
New Rise in Money Market Rates

The money markets reacted sharply to news of the steel settlement this week, confirming predictions that high money rates are going even higher.

In the Treasury's regular weekly auction of 91- and 182-day bills, which was held almost immediately after the settlement was announced, **yields on six-month bills jumped to a record 5.009%. And three-month yields went to 4.602%, just a shade under the record 4.670% chalked up only three weeks ago.**

The major commercial banks followed by hiking the brokers' loan rate from 5% to 5½%. This is the first time since 1957 that the brokers' loan rate has been above the prime rate, now 5%. The rise immediately touched off speculation that both the prime rate and the Federal Reserve's discount rate, now 4%, will also go up shortly.

The reaction in the bond market was also marked. **High quality outstanding corporate obligations declined in price; so did most tax-exempt issues. But the impact was even more evident in the new issue market,** where underwriters made downward revisions in their bids.

For example, one large bond house commented that the 30-year, AAA 5% Kansas City Power & Light first mortgage bonds were priced about $10 a bond lower than they would have been if the banks hadn't raised the loan rate. The bonds were re-offered to investors to yield 4.95%, and were quickly oversubscribed.

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Gluck Is Seeking Stockholder Meeting
In Move to Unseat H. L. Green Board

Maxwell H. Gluck, president of Darling Stores, this week charged H. L. Green Co.'s directors with "packing" its membership in order to perpetuate the present board.

Gluck is seeking proxies for a special stockholders meeting to unseat the board, which approved an out-court-settlement between Green, a group headed by Jack Wolgin, head of Atlas Credit Corp. in Philadelphia, and Maurice Olen, former Green head facing trial for securities violations (BW–Dec.19'59,p57). Under its terms, Green dropped two damage suits against Olen, Olen surrendered to Green all his material assets in his personal holding company (valued at $1.6-million), and the Wolgin group ended up as owners of 9% of Green stock (BW–Dec.12'59,p71). The company's bylaws say that a special meeting can be called by holders of 25% of the stock. Gluck, himself, now holds 4,500 shares–4,000 of which he purchased in December. He offered to buy $4-million in Green stock but was turned down by the board.

In a broadside to Green stockholders, Gluck charges that the addition of the Wolgin group to the board, which has increased the members from 9 to 11, is "highly objectionable." Gluck claims the Wolgin group actually acquired control of its stock through an agreement with Olen last spring without making any downpayment and with Olen guaranteeing the group against losses–to the extent of $638,000, according to the court record.

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The Markets Briefs

Investors' purchases of mutual fund shares hit $2.3-billion in 1959, compared with $1.6-billion in 1958, the National Assn. of Investment Companies reports.

Pepper prices exploded this week, with white pepper skyrocketing in one day by 26¢ to $1.26 a lb. Pepper companies, like A. A. Sayia Co. and Ludwig Mueller Co., Inc., report that white supplies are still firmly in the control of Singapore operators. But other brokers also note that the harvesting of India's crop has broken their grip on the black (BW–Dec.19'59,p105).

O. DeG. Vanderbilt, III, is president of Dorsey Corp., not William H. Husted, a director, as reported last week (BW–Jan.2'60,p79). Vanderbilt would neither confirm nor deny the rumor that Dorsey was dickering for the purchase of a group of Miami Beach hotels; he said, however, that Dorsey was looking into a number of special situations.

Wall St. Talks . . .

. . . about steel settlement and interest rates, jet financing, new breed of security, mutual fund coup.

The steel wage settlement will hasten a new rise in short-term borrowing costs, according to bankers. They are reluctant to raise their own prime rate, now at 5%, before the Federal Reserve acts on the discount rate, now 4%. They're hoping that with steel peace assured the Fed will put through a hike by mid-February at the latest.

Capital Airlines is continuing to have trouble in lining up long-term financing for the new jets it has ordered. Reportedly, the banks are willing to go along but life insurance companies are balking at providing long-term funds.

Look for a **new breed of corporate security** at the month's end, when Lehman Bros. markets \$20-million Home Oil Co. convertible debentures. Instead of being convertible into Home Oil's own common stock—the usual pattern—they will be exchangeable into the stock of Trans-Canada Pipe Lines Ltd., which is one-fifth owned by Home Oil. The deal avoids dilution of Home Oil equity through issuance of added stock, may set a pattern for other companies in a similar position.

Analysts think that the **proposed merger between Lockheed and Baldwin-Lima-Hamilton** may mean a dilution in Lockheed's per share earnings. But B-L-H has over \$75-million in working capital, which may be more significant than immediate earnings prospects. It's probable that B-L-H's cash will be used for more acquisitions.

The boom in the sale of personal holding companies is widening. A number of mutual funds are scrambling to buy such companies, with **Broad Street Investing Corp. grabbing off the biggest one yet—a \$39-million personal holding company established by a New York family.**

Latest issue to gain speculative backing is **Electronic Associates, Inc.,** of Long Branch, N. J., traded over-the-counter. The stock **moved from \$31 to \$42 this week, then fell back to \$36.** Company officials can't account for the hyper-activity, but point out that deliveries are flowing more smoothly (backlog is down from \$11.7-million to \$8-million) and that fourth-quarter sales will reach \$6-million—or almost as much as the first three quarters together.

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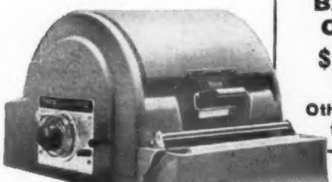

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LABOR

The Price St

Only the union is really happy about the terms that brought settlement; industry fell shy of several goals, including work rule change.

The United Steelworkers came out of an eight-month struggle with the basic steel industry with what the union called its "greatest contract [providing] the best conditions the steelworkers have ever enjoyed."

Addressing USW's cheering wage policy committee meeting in Washington late Tuesday, Pres. David J. McDonald said that while other contracts may have been for bigger increases, none had ever been negotiated against such solid resistance—and done so well in gaining the union's "realistic" goals.

Even the industry had to admit this week that McDonald had a basis for his words. Its negotiators had bargained stubbornly for substantial objectives and, with the signing of the agreements this week, it was plain that they had come out poorly in comparison with the union.

About the best they could say was that they settled lower than the union's "lowest" demands.

• **Is Everybody Happy?**—The union figures its total gain at about 39¢ an hour, spread over the next 30 months, to June 30, 1962. According to McDonald, this is about 40% more than the industry's "last offer" under the Taft-Hartley Act.

To McDonald, this is a "noninflationary" settlement, and one that should be "good for the country, for everybody," not too much, not too little. "Everybody is happy," McDonald said.

• **Doubtful Point**—Steelworkers everywhere certainly are. The uncertainty is now over. They can now breathe more easily, plan ahead without worrying about another strike and more lost wages. But it's just not true that everybody is happy at the settlement worked out last weekend.

If McDonald had said "relieved," he would have been right. Even those disturbed by the final terms—and fearful of possible consequences—are relieved that the dispute is over. But, outside the union, nobody is really happy about the terms that evolved in the final days of contract negotiations—strongly influenced by political considerations.

• **Cost to Industry**—Roger M. Blough, chairman of the U.S. Steel Corp. and the key industry figure in the govern-

Steel Is Paying for Peace

ment maneuvers toward a settlement, told a television audience Monday night that while the new agreement appears "less inflationary" than others in the past, it "hardly can be considered non-inflationary."

Blough estimated the cumulative cost to the industry as more than a billion dollars. He said the settlement will mean an increase of 3½% or more in hourly employment costs each year, subsequentially more than the industry originally offered as the maximum that it could increase its costs without a price hike.

At that, he commented, the terms accepted were better than any the industry negotiators had been able to get from the union at any time during the long months of bargaining; they were "probably the only terms which could conceivably win even reluctant acceptance from both sides," Blough said.

• **Details**—The new steel contracts run to June 30, 1962, insuring the industry and union of two and a half years of bargaining peace. The industry estimates its total cost at 41¢ an hour over the term, although the exact amount will vary from company to company. The union—and the government—put a smaller figure on the packaged gains, but the union won't challenge the industry's arithmetic.

Here's how the packaged costs break down:

Wage increases (including higher increment and incentive rates)	21.5¢
Pension improvements	3.6¢
Cost-of-living increases, estimated through mid-1962	7.2¢
Insurance changes and a noncontributory plan	7.0¢
Supplementary unemployment benefits plan revision........	2.0¢

This adds up to a total of 41.3¢ an hour.

The immediate gain for steelworkers will be about 6½¢ an hour, made up of the amount they had been paying into insurance that will now be paid for by their employers plus a cost-of-living adjustment to cover 1959. However, this is not an increase in wages; they remain unchanged until December, at the rate paid last year.

• **Differences From Kaiser**—The biggest difference between the Kaiser agreement of last October and the steel contracts now being signed is in the duration. Kaiser signed for 20 months. Present settlements are for 30. However, the steel union already has offered to extend its longer contract term to Kaiser and to other small companies that have signed with USW.

TOGETHER: Industry's R. Cooper (left), Secy. Mitchell, USW's Goldberg.

Here, in some detail, are the provisions of the new agreement:

Wages. Steelworkers will not receive an immediate increase in hourly pay but will get two raises during the term of the contract, to June 30, 1962. They will receive a 7¢-an-hour increase Dec. 1, 1960, plus a 0.2¢ increase in the skill increment between jobs. On Oct. 1, 1961, they will get another 7¢-an-hour increase in wages and a further 0.1¢ boost in the increment. The raises average about 8.6¢ an hour in 1960, 7.9¢ in 1961. Total wage costs will rise more than that (the industry estimates 21.5¢ in all) because higher pay forces incentive rates up, too.

Cost-of-living. The terms limit cost-of-living increases to a maximum 3¢ an hour in 1960 and 1961 (a total of 6¢) regardless of how high the government index may go in either year. However, the maximum c-of-l to be paid on annual adjustment dates—Dec. 1 of this year and Oct. 1, 1961—is subject to a reduction if the cost of the revised insurance program on a noncontributory basis proves greater than anticipated.

Insurance. Sickness, accident, life, hospital-surgery insurance will now be paid for entirely by the industry, which up to now has insisted on contributory programs. There are a number of increases in insurance coverage.

Pensions. In the past, retirees have been given $2.40 a month for each year of credited service. In the future, they will be given $2.50 a month for years before 1960, $2.60 a month for years of service accrued after this Jan. 1. Steelworkers will be able to accrue credits for 35 years instead of 30. This means pensions, at the minimum level, will rise from $72.50 a month to $87.50.

The new agreements also provide for about $1,500 as a lump-sum payment on retirement—demanded by the USW to help steelworkers start out on retirement, for a downpayment on a Florida home, say.

SUB. The supplementary unemployment benefits plan will continue unchanged except that the companies will "improve" the plan by assuming once again a contingent liability of 2¢ an hour, added to their SUB cost of 3¢ an hour.

Human relations. A Human Relations Research Committee will be established, jointly, to plan and oversee studies of mutual problems in a number of areas—and to recommend solutions. The problems include "the determination of equitable wage and benefit adjustments," which can be interpreted as a more orderly and successful way of bargaining; job classifications, wage incentives, medical care, seniority—including maximum practicable protection for long-service employees against layoffs, and other over-all problems by mutual agreement.

Seniority. A very complicated contract section apparently stiffens seniority rules and looks as if it could prove to be a step toward more plantwide seniority where departmental seniority now exists.

Local work practices. Controversial contract language still bars management from making unilateral changes in work rules. However, industry says a

number of provisions in the new agreements constitute a "compromise" of positions and a step toward a substantial curb on "past excesses" in plants.

Union security. Provisions for an "agency shop" in right-to-work states are written into the new contract. Where the union shop is barred, and workers cannot be required to join a union and pay dues, the steel employers agree that their employees must pay fees to the union for services. The first month's fee is the amount of the union's initiation charge and any outstanding levies. Thereafter, the non-union employee's fee will be equal to the union's monthly dues and assessments.

• **Company Losses**—The industry failed dismally in its campaign to eliminate from contracts the hotly controversial clauses that bar employers from unilateral changes in local work practices.

It also failed to accomplish two things it set out to do initially—hold down the sharp rise of labor or employment costs and end the "escalation" in steel contracts.

It had to surrender to union demands for a non-contributory insurance program: For years, the industry had resisted this, as a matter of principle, contending that employees should share the cost of insurance with employers.

It lost ground in other areas, too, but less important ground.

• **Gains**—What made these setbacks particularly disheartening to many in the industry was this very real fact: If the concessions finally given to the union had been made last June, the long and costly strike would have been averted.

However, as Blough assesses it, the new agreement is by no means bad. The industry did not accomplish what it hoped to—but it made some gains.

Although it failed to eliminate the local work practices clause from contracts, the industry did succeed in keeping an absolutely free hand in the field of automation. And it won a few changes that "curb to some considerable extent . . . the past excesses from which some of our troubles are flowing," Blough said this week.

It gave in somewhat on cost-of-living escalation—but succeeded in limiting c-of-l increases in any year to a maximum 3¢ an hour.

It had to increase employment costs more than it wanted to, but it did succeed in slowing the rate of rise. According to Blough, instead of costs going up four times as fast as shipments per man-hour annually—as they have in the past—they will now rise a little less than twice as fast.

All in all, the U. S. Steel chairman feels, optimistically, that the industry can show "one of the greatest improvements in its productive efforts . . . in

modern time" under the new contract –provided there is a cooperative spirit between labor and management.

• **Amity Moves**–The relations between the steel industry and union–and between the companies and their steelworkers–are more strained than they have been in years. In recent weeks, campaigning for and against the industry's proposed "last offer" created further tension.

The problem now is to prevent further development of a "hate the boss" attitude in the mills.

Tuesday afternoon in Washington, David McDonald told his USW wage policy committee to go back to the plants in a spirit of "friendship" and cooperation. Let bygones be bygones, he urged, after the 171-member committee unanimously approved the steel settlement.

• **Conciliation**–Actually, more of the antagonism between steel management and labor existed at executive levels than in the mills. At midweek, the men responsible for getting the steel dispute settled–Vice-Pres. Nixon and Labor Secy. Mitchell–were working quietly for a rapprochement of industry and USW negotiators.

Next Monday night, the Vice-President will be host in Washington to industry and union leaders–for a "social evening," to give them an opportunity to relax together.

• **Why It's Needed**–Obviously, friendly cooperation is necessary to the smooth operation of a mill. But it's even more vital for steel now. Whether the new contract will be inflationary or not could depend on the success of joint efforts to make the mills more productive.

The industry contended up to the final break in the bargaining, during December (page 26), that it could not afford to increase its net employment costs more than 2.7% without offsetting boosts in productivity–through the elimination of wasteful practices.

It has settled above its 2.7% figures, and without the right to make unilateral changes in work practices. It won only assurances that:

• Each party as a matter of policy will encourage prompt settlement of problems in this area by mutual agreement at local levels.

• Labor and management will establish a joint committee with a neutral chairman to study working conditions and their application, and make recommendations no later than Nov. 30, 1960, with the understanding that the recommendations are to be binding only by mutual agreement.

This is a weak substitute for what the industry sought. As an alternative, it is only as good as the spirit behind it. The union, at almost any level, can help make mutually acceptable changes –or block any changes at all. **END**

In Labor

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New York City Transit Accord Reached As City Hall Offers Financial Aid

New Year's Eve agreements between the Transport Workers Union and the New York City Transit Authority and seven private bus lines assured two years of transit labor peace for the city's subway and bus riders. But whether they would have to pay the piper, TWU Pres. Michael J. Quill, through a fare increase was still uncertain.

The TA-TWU negotiations, conducted in a City Hall atmosphere compounded of bluff, bluster, and political wheeling and dealing, resulted in **wage increases of 18¢ to 25¢ over two years for 29,000 TA employees plus fringes that brought the hourly cost to 40¢, or a total of $35-million.** The private bus lines package totaled 36¢ an hour, or about $4-million for 8,000 workers.

Before the settlement with the union could be made both the TA and the private bus lines had to go begging to City Hall. The private bus companies got a promise of $4-million compensation for transporting school children at cut-rate fares. The Transit Authority gained $6½-million a year when the city committed itself to assuming the cost of policing the subway network.

The TA ponied up a $12.5-million non-recurring surplus, which leaves a balance of $10-million. The TA now says it can make up the difference through a "hidden" surplus and savings effected through economies. **This should relieve Mayor Robert F. Wagner of the embarrassment of a fare increase at least through Dec. 31, 1961—when his term of office and the labor agreements end.**

In the meantime, Mayor Wagner has ordered the "most thoroughgoing study yet made of transportation" in New York City. The Mayor hopes the survey will answer these questions: "What is the city's responsibility for subsidizing mass transportation? Are there any innovations for financing transit? Can the fare be kept at 15¢."

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Contractor, Reclamation Bureau at Odds Over Strike Pact With Dam Workers

Merritt-Chapman & Scott, the contractor building the $700-million Glen Canyon dam near the Utah-Arizona border, and the U. S. Bureau of Reclamation are disputing who will pay the cost of a strike settlement.

The project was struck by construction trades unions on July 6 when the company withdrew an extra $6-a-day payment for subsistence. The area was classified a "remote area" but when good roads were built and a village with a commissary established, the company withdrew the extra $6, claiming the area was no longer "remote."

The strike was settled on Dec. 22—with work to be resumed Jan. 4—when the company agreed to pay the men $4 a day. The company claims that this is a wage increase, and that the Reclamation Bureau, which is footing the bill for the Upper Colorado Basin storage project, is bound under the contract to pick up 85% of the tab. **But Reclamation Commissioner Floyd Dominy says he's not certain that the contractors are entitled to get back the 85% since the payment may still be classified as subsistence for which the bureau is not responsible.** The question apparently is headed for the courts.

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Union Members Accept 10% Pay Cut To Keep Their Employer in Business

Nine hundred union employees of the Heywood-Wakefield Co., a 133-year-old New England furniture maker, voted last week to accept a 10% pay cut effective Jan. 1 to help their employer meet competition from unorganized Southern plants. Management salaries were cut correspondingly.

The union—a local of the United Furniture Workers—also agreed to suspend cost-of-living raises for one year.

Richard N. Greenwood, company president, appeared before a mass meeting of employees to ask help in meeting price competition from low-wage manufacturers. He reported a two-year loss of $1.25-million and said that the company might be forced to shut down its Gardner (Mass.) plant unless costs are reduced.

Greenwood asked workers to consider either a 10% wage cut or the surrender of 19¢ an hour of cost-of-living increases accumulated through the years. The UFW local chose the 10% cut, which is expected to save the company $350,000 a year.

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Estimate Fringes Costs at 57.46¢ an Hour

Employee benefits, the so-called fringes, are a major item of labor costs, according to the Associated Industries of Cleveland. That's no real news for employers who have been concerned over the steady rise of fringe costs over the past decade. But AIC figures might be.

A recent cost analysis by the association in Cleveland placed the weighted average cost of fringe benefits in the area at 57.46¢ an hour—an increase of about 8¢ an hour in average costs in the past two years.

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Labor Briefs

Union-shop provisions have grown at the expense of maintenance-of-membership clauses in union contracts, according to a Bureau of Labor Statistics analysis of 1,631 major contracts covering 7.5-million workers. In 1958-59 reports BLS, 74% of the workers were covered by union shop provisions as against 64% in 1954 while only 7% are covered by maintenance-of-membership clauses today as contrasted to 17% in 1954.

Some 10,000 unlicensed seamen aboard 207 American-flag ocean tankers have received a 4.5% wage boost for 1960. The pay hike was negotiated in a wage review under a contract between the National Maritime Union and 39 East and Gulf Coast tanker-operating companies. The increase is in line with one negotiated earlier for crewmen aboard passenger and cargo vessels.

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IT PAYS TO CALL IN A BUSINESS SUIT
WHEN YOU CALL ON A BUSINESSMAN


BUSINESS
WEEK

PERSONAL BUSINESS

BUSINESS WEEK
JAN. 9, 1960

A BUSINESS WEEK SERVICE

The Internal Revenue Service's announcement last week of a new "crackdown" on income tax returns is more than the perennial "tough line" talk. It's a basic new approach.

IRS is doing two things:

• **It's tightening field office practice** to discourage taxpayers—mostly sole proprietors, partners, and top men in small companies—from chiseling on expense deductions.

• And, for a double check, **it is requiring companies to file reports on expense allowances paid to top executives** and also "fringe benefits" given them in the form of paid vacations, free travel on company yachts, and so on.

Here's how the new policy will work:

Treasury field offices have been instructed to take a sharp look at all tax returns involving entertainment and travel expenses. Use of cruisers and yachts, hunting lodges, country clubs, and vacation-type "business" trips, will be singled out for special attention.

Field offices also have been told to examine closely all returns with large or unusual entertainment-type deductions that "appear to be disproportionate in relation to the income and business activity of the taxpayer."

IRS also plans to make life fairly miserable for taxpayers who keep poor tax records. IRS field offices have been told to give "cautious" attention to the so-called Cohan rule. This liberal court decision allows a taxpayer who fails to keep adequate expense records to make as close an approximation as possible. But there's a catch. Under the rule, the burden of proof bears heavily on the taxpayer. And IRS intends to give this section of the ruling strict enforcement. **Moral:** Keep accurate, detailed records—or risk the entire loss of entertainment and similar hard-to-prove outlays.

The new company reporting requirements are the most far-reaching feature of the Treasury's plan. **Corporations—beginning with tax returns for 1960—must disclose exactly what expense allowances were paid, either directly or indirectly, to their 25 top-salaried officers. Partnerships and self-employed businessmen must comply under a similar rule.**

In addition, all businesses must give the IRS up-to-date detailed information on company expense deductions for (1) the renting or owning of hotel rooms, suites, or apartments used by customers and executives; (2) company-owned hunting lodges, fishing camps, yachts and cruisers, and other vacation-type facilities; (3) company-paid vacations for executives; (4) country club dues; and (5) attendance by members of executives' families at business conventions or meetings.

The idea, of course, is to furnish IRS with a fairly accurate guide when it scrutinizes the tax returns of individual executives. **If the executive can't prove that the use of the facilities or the benefits had a bona fide business purpose, then he'll have to include the dollar values in his taxable income.**

Note: Not only does the Treasury intend to press this new approach in an effort to eliminate what it thinks amounts to wide-scale use of the expense account or company facility to give "fringe benefits" to execu-

tives, but it will ask Congress to enact legislation if these rules don't prove tough enough.

How do you handle your 1959 tax return? Technically, there's no change in individual reporting. But you should adhere strictly to these recently revised rules:

If you gave expense account statements to your company you indicate this on your tax return. If you've been evenly reimbursed, you needn't report either the expenses or reimbursements. If your company reimbursements exceeded your expenses, you report the excess as additional income. If your expenses were more than your total reimbursements, you deduct the excess amount from taxable income, and show (1) the reimbursement, (2) the nature of your occupation, (3) the number of days away from home on business, and (4) the amount and nature of your expenses.

If you did not give expense account statements to your company, you must attach to your return a detailed statement showing (1) any reimbursements received, (2) the nature of your occupation, (3) days away from home on business, and (4) the amount and nature of your expenses.

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Television continues to maintain a hold on today's children, and families as a unit now spend more time with TV than with any other recreational activity. Studies of TV viewing habits of youngsters (at least in the Chicago area), reported to the American Assn. for Advancement of Science, show just a slight decline in time spent before TV sets.

Elementary school pupils, who five years ago viewed televised programs an average of 24 hours a week, spent an average of 21 hours last year. High school students watched about 12.3 hours weekly last year, compared with a high of 17 hours in 1953.

TV does not seem to have restricted outdoor play, hobbies, sports, and creative activities as had been indicated in earlier studies. What has been cut down is movie attendance, radio listening, and reading comic books.

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If you are interested in investing in a Broadway show but don't know the field, a new publication, Theatrical Investor, may give you some valuable information. The biweekly paper for would-be "angels" has two functions: to provide an avenue for investment (details include names, addresses, and telephone numbers) and to indicate profit possibilities by means of an index.

The index is based on an analysis of Broadway shows during the past five years. It places upcoming productions in four groups in relation to odds on financial success: I, 1 out of 20; II, 1 out of 6; III, 3 out of 4; IV, almost all expected to show a profit. Annual subscription is $35 (The Theatrical Investor, Inc., 1260 Broadway, New York 1).

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Dollars and cents: You'll be paying more for fourth class (parcel post) mail service starting Feb. 1. The increases will range up to 35%, with the average 17.1% . . . **You might want to inquire about possible new interest rates for two-year savings accounts at your bank now that a large number of New York savings banks have raised their rates for these accounts to 3¾%** . . . With payroll deductions for Social Security up from 2½% to 3%, you'll pay $144 in such taxes this year instead of $120. The taxable income base remains the same—$4,800.

In Production

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Hamilton Standard to Make Tool For Cutting, Welding by Electron Beam

Hamilton Standard Div. of United Aircraft Corp., long-time manufacturer of propellers and jet engine accessories, is getting into the machine tool business.

William P. Gwinn, president of United Aircraft, announced that Hamilton Standard has acquired from the Carl Zeiss Foundation of Oberkocken, West Germany, the rights to manufacture equipment for an electron beam process for welding and cutting metals. **The device, known as the Hamilton-Zeiss Electron Beam Machine, can work materials that are virtually impossible to shape by any other cutting or abrading process.**

Electron beam welding and cutting is a relatively new technique that works by focusing a stream of high-energy electrons on a small area, producing such high temperatures that the material vaporizes. **It's about as close to a Buck Rogers disintegrator as anyone has yet come.**

Because the electron beam can be focused on a very small area, it's possible to make deep and fast cuts without heating the material surrounding the work area. For example, the electron beam can generate a temperature of 11,000F at the target area, while less than 0.001 in. away the temperature of the material rises only 500F.

The equipment has been used as a high-production process for drilling holes in jewel bearings, requiring only six seconds to drill each bearing.

Hamilton Standard expects to deliver its first machines this year. For distribution, the company has set up a separate sales organization, Hamilton Electrona, Inc., in New York City.

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Sulphur Pipeline Under the Gulf Designed Without Expansion Joints

Freeport Sulphur Co. and Jones & Laughlin Steel Corp. have come up with an unusual solution to a tough problem: **How to build an efficient undersea pipeline to transport 4,500 long tons of molten sulphur a day from a manmade island in the Gulf of Mexico, where it's mined, to a tank barge loading point at Grand Isle, La.**

The nub of the problem is that metal pipe expands when heated—in this case about 55 ft. in length, from "normal" 75F to the 300F heat of the molten sulphur. Ordinarily, you'd use expansion joints or loops in such a case—but with the pipe buried 5 ft. deep in the ocean floor, Freeport engineers felt these would be either ineffective or too expensive.

The problem was solved this way: The $30-million line has three concentric pipes. The inner 6-in. pipe carries the sulphur, the middle 7⅝-in. pipe is a hot water jacket to keep the sulphur in a molten state, and the outer 14-in. pipe is a protective casing.

After the pipeline was laid, but before it was buried, the outer casing was placed in 10,000-psi. tension by exerting a huge pull on both ends, and the ends were anchored. The inner lines were then heated to 225F and allowed to expand normally 35 ft. in length. Their ends were then fastened to the outer casing, so the whole line was permanently stretched.

This way, when the line heats up from 75F to the operating temperature of 300F, it first relaxes the "stretch" before expanding—so the stresses will reach only 60% of the pipe's yield strength. If it cools to atmospheric temperature, these thermal stresses will reverse into tensions as the line tends to shrink—but the tensions and stresses will reach only 70% of yield strength. **As a result, there will be almost no linear movement in the pipe, and no expansion joints are needed.**

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Kawecki Chemical Co. Finds Way To Make Larger Tantalum Sheets

Kawecki Chemical Co., Boyertown, Pa., says it is using a new process to make larger tantalum sheet—36 in. wide and 72 in. long or longer. Most sheets were previously limited to 24 in. by 72 in., though Fansteel Metallurgical Corp., for one, has had a larger tantalum sheet rolled for it on a steel rolling mill.

Tantalum is chemically inert to common mineral acids, which makes it important to the chemical and metallurgical industries. It now takes two or more tantalum sheets with two or more welds to make a chemical reaction vessel. **Kawecki says its new sheet will eliminate up to 50% of the welding process. This is expected to cut labor costs and reduce possibility of contamination.**

Kawecki is guarding the details of the process against competition, but says it's mostly a matter of "putting more work into the metal"—mainly enabling it to take more passes through a rolling mill. This involves altering the grain structure and increasing the purity of the tantalum, especially from oxygen contamination; developing new rolling techniques; and getting larger starting pieces to work with.

The large sheet will sell for $59.16 a lb., the same as smaller size sheets, according to Kawecki.

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Process for Making Metallurgical Coke To Get Large-Scale Test at New Plant

A process for making metallurgical coke from low-grade Western coals will get a large-scale test this summer. Food Machinery & Chemical Corp. announced recently that it was going ahead with its plans to build a $3-$4-million plant at Kemmerer, Wyo., capable of producing 250 tons per day.

If the semi-commercial plant is successful, it could provide a large-scale use for the Rocky Mountain area's vast untapped fields of sub-bituminous coal and lignite. Metallurgical coke, used primarily in steel-making, now is manufactured only from high quality coals. **Food Machinery's new process, already tested in a pilot plant, is designed to produce good metallurgical coke from any grade of coal.**

INDUSTRIES

Drug Men

1 First step in search for a new drug is to lay out research line. At Parke, Davis & Co. (above), Research Vice-Pres. Leon A. Sweet (seated left center, with glasses) carefully goes over proposed research project with large group of company's scientists.

In an old, red-brick building, a few steps from the Detroit River, a bacteriologist working for Parke, Davis & Co., one of the nation's top ethical drug manufacturing companies, is engaged in a maddening task. He is trying to understand why one type of bacteria will cause disease in a bit of human tissue, and a like type of bacteria will not. "What," he asks himself again and again, "is in the living tissue that reacts with bacteria?"

Just a few blocks from downtown Indianapolis, in new quarters, a team of virologists of Eli Lilly & Co. is patiently (and so far fruitlessly) wait-

2 An early step is to examine all potential available materials for disease-resistance action. Viruses for vaccine are generally grown in test tubes; vaccine is separated, re-examined by microscope.

3 Drugs that show promise against disease matter in Parke, Davis' test tubes go on to next step—trial of their potency on mice, or other rodents. Tryout program proceeds carefully, step by step, extending over many animals and many months before reaching final stage of use on monkeys.

Bet on Bolder, Deeper Research

ing for two virus strains to cause some sort of infectious disease in monkeys. The viruses are two of 30 strains that appeared unexpectedly during development work on polio vaccine. They have never been known to cause disease in man—but researchers, aware that long dormant viruses can turn almost overnight into killers, are keeping a close eye on them.

"They are," says one of the scientists ruefully, "viruses looking for a disease to cause." If the viruses find their disease, the Lilly scientists want to be ready to stop them in their tracks.

In still another lab—in an ivy-covered campus of research buildings in New Jersey—a team of Merck & Co., Inc., biologists is studying what happens to a human body cell when it is invaded by bacteria or viruses. The cell is the basic building block of all living matter; but after decades of study, researchers are still puzzled about how it works, why it acts as it does, and what causes it to undergo change. "One major advance in knowledge about cell behavior," says one researcher hopefully, "would mean immediate advances in research in a large number of specific drug fields."

• **Research Upheaval**—This kind of fundamental exploration is going on today in ethical drug laboratories in a number of cities across the country. It is helping to spur the construction of many new research facilities—such as the $13.5-million lab at Ann Arbor, Mich., which Parke, Davis' Pres. Harry J. Loynd and Research Vice-Pres. Leon A. Sweet are scheduled to dedicate late this winter.

For pharmaceutical industry research today—as at no time in the past—is moving toward more and more basic research activities. Particularly in the development of ethical (prescription) drugs, traditional approaches to research

4 Next, Research Dept.'s clinical investigation unit, staffed with M.D.s, supervises testing of drug on volunteers—sometimes numbering in thousands. That's after decision is made on form of drug—tablet, capsule, injection, or what—and on what production problems might crop up.

5 Double checking is routine in new drug development. Blood samples from patients on whom new drug is tried are sent back to research labs for analysis.

are now undergoing a general overhaul.

But the changeover is not without problems. Management is just as convinced as the scientists themselves that a major effort to understand the nature and causes of disease is the only sure way to find cures for disease.

• **Costly**—This is an expensive decision. Last year the pharmaceutical industry spent an estimated $200-million on research—as much as $40-million of it on basic activities. But industry executives are convinced that they have no other choice.

Particularly in the development of new ethical drugs, researchers have apparently come just about to the end of their string in reaping great rewards from chance discoveries. Few antibiotics for new uses have turned up in recent years, for example. And now the research emphasis has turned toward finding drugs that will halt the progress of such diseases as cancer and atherosclerosis. Chance discoveries here are even more problematical.

• **Search for Causes**—A growing number of researchers are now convinced that the only way heart diseases and cancer will ever be brought under control will be by uncovering something basic about their causes.

Pharmaceutical researchers, therefore, are putting the spotlight on what causes cancer, the cardiovascular diseases (those affecting the heart and circulatory system), disorders of the central nervous system (including mental illness), kidney ailments, and inflammatory conditions such as arthritis and rheumatism. These are among the most widespread diseases—cancer, heart, and mental illnesses combined afflict more than 30-million people in the U.S.

Parke, Davis, for example, is spending 50% of its research budget on the riddle of cancer. At Lilly, about 30% of R&D money goes to study of the nature and causes of diseases, rather than to specific problems.

I. New Paths for Research

This conviction that the key to industry progress is in digging into causes of disease is the fundamental reason for the upheaval going on in the research programs of ethical drug houses all through the country. The new patterns these programs are taking, however, are being shaped by other factors, too.

• **Government Spur**—One is the growing importance of government research. Under the National Institutes of Health, big research programs are now in operation on all of the major unsolved diseases. Industrialists argue that results would be much better if the government under certain circumstances allocated more funds to companies already working in the field. Government scientists counter that there's a

real need for a strong research organization not only to bridge the gaps between various company labs, but also to do basic work the companies might find too expensive, with little chance of immediate profit.

The net result of the government's growing role in research, however, is that companies, in redirecting their research programs, are striking out more boldly than ever. The goals of projects under way at any given company today are apt to take in a wide variety of fields.

Parke, Davis, for example, traditionally known for antibiotic research, is today working on such things as steroids, and medicines for tropical diseases. Merck is tackling everything from aging to cancer. Lilly and Upjohn have strung fundamental research right across the board. Lederle Laboratories (a division of American Cyanamid Co.) is also striking out in all directions at once.

Even a smaller company, such as Schering Corp. (known primarily for its work in developing a series of steroids for arthritis) is getting into new fields. Indeed, many observers agree that rapidly expanding government research into causes of disease has aided small companies more than the big.

Smaller companies, with government research results made available to them, can adjust their own research on the fringes, at a reasonable cost and effort. Since survival in the industry today means never falling far behind the front of the pack, government aid is thus invaluable to those with limited research budgets.

• **Patent Muddle**—The growing patent muddle in the pharmaceutical industry also has had its repercussions on research. In recent years, lines of work pursued in various places have come closer together, and this has resulted in a growing number of cross-licensing agreements—especially in fields such as antibiotics, where major advances have been made.

In order to get away from the dupli-

CONTINUOUS testing goes on even after drug is successfully in production; samples from each batch are compared to standard.

FINAL step in birth of new drug is up to detail man, who calls on doctors to acquaint them with new product.

cation of effort that has been a characteristic of the industry, companies revising their basic research programs have often decided to strike out into fields where little research progress has been recorded, rather than to stick closely to well-ploughed fields. In the future, this trend is likely to increase, accentuating still further the diversification of ethical drug company's basic research programs.

• **Broadening Markets**—The opening up of broader markets—both geographically and as a result of population changes—is also helping to reshape research programs. In the past year, almost all major ethical drug producers have shifted a heavier proportion of total research into geriatric, or old-age, medicine—an obvious move in view of the increase in average life span. Since 1950, the number of Americans over 65 has jumped from 12-million to 15-million persons. This trend is likely to continue for a decade or so as medicine and surgery as well as better diet have been successful in prolonging life.

Veterinary medicines are also receiving new attention. Chas. Pfizer & Co., Inc., and Lederle have long stressed research on animal diseases. Now other big drug houses are getting into it—Parke, Davis, for example, has just decided to move back into the field, which it de-emphasized several years ago.

Ethical drug manufacturers also look to overseas markets for a boost in sales. They may run up against definite limits in countries with some type of socialized medicine that specifies by name what drugs the doctor can prescribe. But in the vast, underdeveloped areas of the world, pharmaceutical management sees a tremendous sales potential for its ethical drugs—though this may involve fresh research on diseases peculiar to those areas.

• **Metamorphosis**—These are some of the things shaping the new pattern of research in the ethical drug field.

The results of the metamorphosis are already beginning to appear in drug company strategy and practice:

• More often than not, today, the research director of an ethical drug company is a member of the board of directors as well as of the executive committee. This enables him to coordinate his research programs with the company's over-all aims.

• Elaborate new research facilities are in evidence almost everywhere. The \$13.5-million Parke, Davis put into its new Ann Arbor lab, for example, is an impressive sum, considering that the undepreciated value of P-D's total plant before starting the new lab was around \$67-million. Perhaps more impressive than the size of the expenditure is what it means: No pharmaceutical company today—no matter how old,

how well-established, how profitable, or how well-balanced in products—dares let its research effort lag.

II. The Race for First

Parke, Davis, since its founding in 1866, has prided itself on its research, and as long ago as 1902 had what it claims was the first building exclusively for research in any industry. But the cold facts are that company sales in recent years have been growing faster overseas than in this country, and that even last year nearly one-third of its sales was from a single antibiotic, Chloromycetin, introduced 10 years ago.

Still, these two things—a strong position in foreign business, and a broad line of 450 products headed by one particularly successful drug—have put Parke, Davis abreast of Eli Lilly, the sales leader among those ethical (prescription) drug houses which are not allied with a general chemical manufacturing company. Both P-D and Lilly estimate their 1959 sales at $190-million.

Parke, Davis is strongly challenged abroad by Pfizer (which also sells non-pharmaceutical chemicals) and Abbott Laboratories, as well as Schering and others; and now Lilly and the Upjohn Co. are expanding overseas, too. Moreover, P-D is just beginning to get in the area of corticosteroids—drugs made from hormones or secretions in animal organs, and used principally to relieve the pain of arthritis although not curing it. Other companies have a big head-start here.

• **Short Sales Life**—Loynd is well aware of what P-D has to do—besides increasing research—to remain at the top. He recently set up a Commercial Development Div. to coordinate new product planning and study new-drug needs in the world market.

Loynd himself heads the committee to which the new division reports. "Today," Loynd said in a recent speech, "we are in a period where, because of vastly increased research and development, the sales life of a new product can hardly be estimated for more than five years." Other companies claim that about 50% of their sales come from products they developed in the past five years.

• **Rewards—and Penalties**—It's characteristic, in the ethical drug field, that the bulk of the profits resulting from the development of any new drug always go to the company first to introduce it. Most graphic example of this recently was Schering Corp.'s leap to high profits (and the hot seat before Sen. Kefauver's subcommittee) in two years with a new steroid (BW—Dec.19 '59,p30).

There's also Lilly, which started its

own research on growing viruses in tissue culture in 1950. When the Salk polio vaccine, which required tissue-culture technique, came along, Lilly was able to leap far ahead of competition, producing about 70% of all polio vaccine, and jumping sales \$40-million in one year. The penalties for not being first can be severe. A few years ago Parke, Davis discovered a new way to manufacture streptomycin to sell at \$1.50 a gram when the market price was \$2.00. It constructed a \$6-million building to utilize the new process. But before it could get into production a competitor introduced a form of the drug at 50¢ a gram. P-D's \$6-million building never has been used for drug production.

III. Hurdles on the Road

Yet, despite the new research emphasis, not all the mysteries of disease are going to be solved soon. One drawback is a lack of competent manpower. The research payroll in the bigger companies numbers 700 to 800 (Lilly has 1,000-plus), roughly one-half with professional degrees in medicine and science. But there is a severe shortage of virologists, pharmacists, pathologists, animal psychologists. All told, says Loynd, chairman-elect of the industry association (The Pharmaceutical Manufacturers Assn.), the industry currently needs 7,500 more scientists.

• **Research Puzzles**—Another thing that points to slow progress is the relatively primitive state of research in many fields. A good case in point is atherosclerosis (commonly known as hardening of the arteries).

Scientists have long suspected that atherosclerosis is related to the buildup of a fatty substance named cholesterol in the blood vessels. There now are drugs which will control the formation of cholesterol in animals and appear to work also in man. But is that the whole answer? Or does the cholesterol carry something else, perhaps a virus, that starts a chemical reaction that eventually is going to mean the blockage of a blood passage? Researchers aren't sure.

Cancers are a monstrous puzzle. One virologist has put cells from human tumors in identical culture tissue in test tubes. One cell has multiplied, the other has not. Are cancers really caused by viruses, those sub-microscopic parasites which now are suspected of being the root cause of many diseases, even central nervous system disorders? Many researchers believe so, but don't have enough evidence to prove it.

• **Time and Money**—All of the companies are still intrigued by the potentials of some of the families of drugs that by now have become familiar items. Antibiotics are a good example

of this. There are two reasons: It's nearly certain that the maximum usefulness of existing antibiotics has not yet been reached; and there's some belief that there are still valuable antibiotics to be discovered—and no company wants a competitor to discover them.

Parke Davis has had a great stake in antibiotics, but to continue the search for new forms is a time-consuming and expensive task. In 1958 alone P-D screened 40,000 substances for antibacterial activity and only six came through the numerous trials to the final test on man. Sweet doesn't know whether he should cut back his antibiotic program and put his people's time on something with greater market promise. The same dilemma holds true for research directors in other companies holding a historical dominance in one or another of the other fields of ethical drug research.

By switching tack, a company can potentially find a new field of great profit in terms of earnings and cut down on waste effort. But it may be risking position, reputation, and its edge in the old field by doing so.

IV. High Cost of Selling

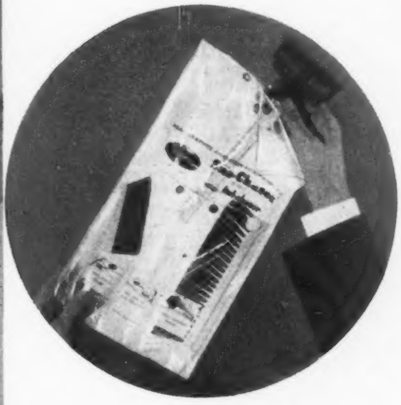
Besides the long and tedious delivery that necessarily accompanies the birth of every new drug, other things stand to undergo change when a company moves into a new field of drug research.

One of the most expensive in terms of time and money is the retraining of the company's detail men. Because of U. S. law, which states that most ethical drugs cannot be sold except on prescription by a physician, the industry's sales efforts are characteristically directed, not toward its customers, the drug stores, but toward the country's approximately 160,000 licensed doctors.

The object of the detail men is to get doctors, when writing a prescription, to use a company trade name for a drug rather than the chemical designation, because a pharmacist is required by law to give only what the doctor prescribes, no substitutes. Most detail men are ex-pharmacists but the introduction of a completely new line of drugs means acquainting them with a whole new field of knowledge.

• **Up to the Minute**—There are approximately 15,000 of these "detail" men in the drug industry and they each cost a company about $10,000 a year in salary and expenses. The detail men are necessary, the companies contend, because new drugs pour from the laboratories so fast that no practicing doctor could ever keep up to date—particularly the general practitioners, who write about 80% of all prescriptions.

And each company has its own story of the baffled doctor who is able to re-



lieve a patient because a detail man coincidentally happens to stop by with a new product just about then.

• **Eyes on Competitors**—But there is also another good reason for the detail men. They are a pharmaceutical company's eyes and ears in the field to keep tabs on competition. In most companies certain detail men are assigned to call only on hospitals; they are expected not only to promote products but to report on competitive drugs going through the clinical investigation stage at the hospitals.

V. Need for High Profits

The rising cost of research—particularly as a company reorganizes to put more effort into new lines or fundamental studies—is, the industry thinks, also the best answer to criticism of its profits. As a group, pharmaceutical companies average after-tax profit to sales of around 19%. Return on investment is even higher, but that is because the principal investment is in brains, not brick and mortar.

• **Financing Growth**—Most of the leading ethical drug companies are very old, but their greatest growth has come only in the past 10 years; in most cases sales have more than doubled in that period.

One of the major factors in this growth was antibiotics, sales of which have jumped from $81.1-million in 1947 to more than $300-million now. Steroid drugs, barely noticeable in sales in 1949, now gross around $100-million a year. But to create that kind of market the drug industry between 1946 and 1951 spent $25-million in developing one steroid alone, cortisone. Consequently, the initial prices of cortisone have been high as the companies have tried to recoup the investment. Meanwhile, just in case the cortisone effort flopped, the research expenditure was being figured in the prices of drugs already on the market—pharmaceutical company's prices are calculated to yield a total profit on its whole line, not on individual drugs.

• **High Risk**—"Because of the risks in this business," says Loynd, "we have to operate on a wide margin of profit." He should know. Once when Parke, Davis sales were only $40-million a year he committed the company to purchase $1.5-million worth of material for a new ulcer product, gambling on favorable test results. The product proved to be a failure when clinical investigations were made.

No revamping of a company's research organization can prevent such miscalculations from being made again. But a widening of the company's interests into broader vistas should measurably soften the impacts of such blows when they fall. **END**

In Regions

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State Group Urges Joint Action To Reduce Cost of Electric Power

Gov. Nelson Rockefeller's Committee on Power Resources estimates that, by the end of 1960, New York electrical producers will be able to supply enough power to handle any foreseeable industrial expansion for the next five years. But big money and joint action by public and private producers will be necessary to increase generating and transmission efficiency.

New York's seven-man task force, including top officials of three of the largest private utility companies, sees an immediate need to provide cheaper electricity all over the state. **Cheap electrical power often pulls in new industry, induces existing users to expand.**

To reduce costs, the committee strongly urged major private power producers and the state Power Authority to combine forces and funds. New and bigger turbo-boiler plants are more efficient than smaller ones now in use, but no single company can afford them. A single electrical network to cover the whole state, jointly operated by all producers, would bring cheaper electricity to all consumers. Installing big generators would require both public and private money.

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Newark (N. J.) Voters to Decide Between Two Forms of Government

Next Tuesday will be a red-letter day for Newark, N. J. On that date, voters will decide whether they want to retain their mayor-council form of government or go back to the commission form.

Their abolition of the old commission government in 1954 has been credited with arresting Newark's long decline (BW–Nov.30'57,p144). Since the voters put in the mayor and council, Newark has become more attractive to investors—both its own and outsiders. And construction has attested to new vigor in Newark's economy.

However, boosters of the old commission government are campaigning against "one-man rule in City Hall." Advocates of the mayor-council system, on the other hand, regard the vote as an opportunity to confirm the existence of the "new Newark."

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Indiana State Official Blasts Away At New Mexico's "Raiding" of Industry

The unique industrial development program of Deming, N. M., whereby the city gets new industries by buying them outright, has brought cries of "economic piracy" from Indiana.

Under a 1955 state law, New Mexico cities can sell bonds to buy—but not to operate—industries that will provide new employment (BW–Aug.9'58,p33). Deming brought in two new industries with little protest. But last month, in buying the Auburn Rubber Co. of Auburn, Ind., **it provoked Lieut. Gov. Crawford Parker of Indiana into calling the New Mexico law a "nationwide raiding policy."**

In the Auburn case, Deming issued $4.5-million worth of bonds to (1) buy the assets of the company and (2) build a new plant for it in Deming. The city sold the bonds to the International Teamsters Union pension fund.

To operate the plant, which will be completed next month, the city will lease it to a new New Mexico corporation of the same name, Auburn Rubber. Some of the old company's management and skilled workers will move to Deming.

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Alaska Takes Fisheries Control From Federal Agency, Sets Own Rules

The new state of Alaska rang in the new year by taking over control of its fisheries from the federal government—the one important economic consequence of statehood. The U. S. Dept. of the Interior turned jurisdiction over to the state's own game commission, freshly appointed by Gov. William A. Egan.

To the industry, this meant more than the replacement of one set of officials by another.

It meant, for example, **a probably permanent ban on the use of fish traps in the salmon business.** Alaskans have long opposed the use of traps by the big canning companies, as providing fewer jobs than other methods and as bad conservation practice.

In deference to this feeling, expressed by Alaska voters in adopting their constitution in 1956, Interior Secy. Fred A. Seaton abolished use of traps last year. State control of the fishing business makes the ban permanent.

The shift of jurisdiction also helped to disband the Alaska Salmon Industry, Inc., the Seattle trade group that handled labor negotiations and the industry's lobbying in Washington.

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People Moving Into Puerto Rico As Well as From It to Mainland

The migration of unskilled Puerto Ricans to the mainland should continue, and probably increase, during the 1960s and 1970s. But migration to Puerto Rico should increase, too, as the island's economic development builds up demand for skilled and some semi-skilled workers.

These were among the points made last week by Robert O. Carleton of the Puerto Rico Planning Board. Carleton emphasized that the figures, which show a net migration away from Puerto Rico, actually conceal a large movement toward the island—about 60,000 in both 1957 and 1958.

The reverse flow, he said, is more than a temporary one caused by unemployment here during the recession.

FINANCE

Private Deals Take

With money tight, corporate treasurers are finding it more and more difficult to sell debt. Investor interest in anything but the higher-rated credit risk is at a low point, and any company that doesn't enjoy a top rating runs a real risk in a public offering.

Even some of the companies that have strong ratings are turning to the private, or direct, placement route for their funds. In the past month or so, such outfits as Litton Industries, Aldens, Eastern Air Lines, and Anderson, Clayton & Co., for various reasons, have all arranged loans from private lenders.

The chief appeal of direct deals: For the better companies, they normally cost no more—and often cost less—than public offerings. Interest rates may be higher, but underwriting fees and out-of-pocket expenses are much less. Moreover, such deals can be tailored to the borrower's needs.

These advantages usually apply whether credit is easy or tight. Today, with conditions uncertain in the capital market, corporate treasurers also favor the private placement because there's no chance of a flop. No corporation wants its prestige damaged by having its debt obligations molder on a dealer's shelf.

• **But No Rush**—For these reasons, you'd expect there would be a real rush for direct placements. But lenders, chiefly the big life insurance companies, don't report any stampede. A few companies say they've committed their funds for the next six months, but most say they are committed only for the next three months. One big lending institution even reports having cash on hand for deals. Another says the entire life insurance industry has fewer forward commitments than in several years.

Yet lenders think that a big rise in private placements may soon get under way. "Frankly, we're surprised we haven't had more deals," says the official of one life insurance company.

• **Trend Develops**—The charts at right show that volume of direct deals is already sizable, though not heavier than a year ago. Of the \$6.9-billion in total debt floated by corporations in the first three quarters of 1959, some \$2.6-billion—or 36%—was privately placed.

In general, corporations slowed down their offerings of debt, both public and private, in 1959. Corporate borrowings in the capital market are not expected to be much higher in 1960, but it is a safe bet that private placements will take a larger share.

As the charts show, the trend is up. Private placements of corporate debt accounted for 38% of all debt offerings in the first quarter of 1959, down to 35% in the second quarter, and back up to 40% in the third.

• **Lenders Are Tough**—Paradoxically, one factor holding down private placements is the very tightness of money. When lenders can call all the shots, as they can now, companies think twice before they plunge. "Conditions are even worse than they were in 1957," says one corporate financial man. "No one is borrowing unless it is essential."

Most life insurance companies agree that they're calling the tune. Homer Chapin, vice-president of Massachusetts Mutual Life Insurance Co., points out that in 1957, one deal out of every 30 or 40 had a kicker attached—either warrants for common stock or some kind of convertible provision. Now, he says, one out of every eight borrowings has a kicker added.

Pension funds, increasingly aggressive in the private placement field, also are seeking convertible provisions in the deals they make.

• **Sweetening**—According to one lender, a kicker provision is a form of potential compensation that isn't just a reward for providing money when credit is tight. As he puts it: "If we help establish a firm's long-term credit, we feel we are entitled to something beside interest on our money."

As an example, he cites the \$10-million loan to General Development Corp. by the Prudential Insurance Co. The Pru received warrants to purchase 250,000 common shares of the Florida land company at \$15.40 through 1964, or at \$19.64 to 1969. General Development traded this week at \$22.

• **Premium Rates**—To get sweeteners, lenders are usually willing to pare their rates a bit. However, they are demanding much higher rates now than they did in 1957; in addition, there's a bigger spread between private and public offerings.

Two years ago, borrowers making private deals had to pay from one-eighth of 1% to ½ of 1% above going market rates. Today, the spread for most companies is ½ of 1% or more. Most deals that are negotiated privately run 6% or better. Adding a sweetener in the form of a convertible provision makes the price even stiffer.

• **Callability**—W. C. Whittemore of the John Hancock Mutual Life Insurance Co. also concedes non-callable provisions are easier to get. Most institutions say they have little trouble getting a five-year non-call feature written into loan agreements; some say it's a little easier to get a 7½-year-to-10-year non-

Bigger Slice of Corporate Debt

call now, but there's a good deal of haggling before a borrower will agree to that. Many lenders also are asking—and usually getting—a nonrefunding provision that prevents the borrower from refinancing publicly at a lower price for a specified time period.

• **Stricter Demands**—Lenders also are as strict as ever in examining and policing borrowers. They demand that working capital be kept above a certain limit, that sinking fund requirements are enforced, that dividends are limited.

Institutions also are being tough about lease arrangements that borrowers may have entered into. It has taken a while for some people on Wall Street to regard such lease arrangements as a method of debt financing—and some companies still refuse to list such lease obligations in anything but a footnote in their balance sheets. But lenders regard such long-term lease deals as another form of debt, and they've been putting in strict covenant provisions relating to leases.

Delta Air Lines, for one, had to accept a covenant which says that engines or propellers on turbine-powered planes may be leased, provided that the value of this equipment is counted as part of the company's indebtedness.

• **Company View**—Some companies balk at the demands lenders are making. But the lenders don't care. They're in a position to pick only the sweetest deals, and there's enough demand so that they can turn a cold shoulder to any company that can't—or won't—meet their requirements. Most companies see enough advantages in private placements to offset the annoyances.

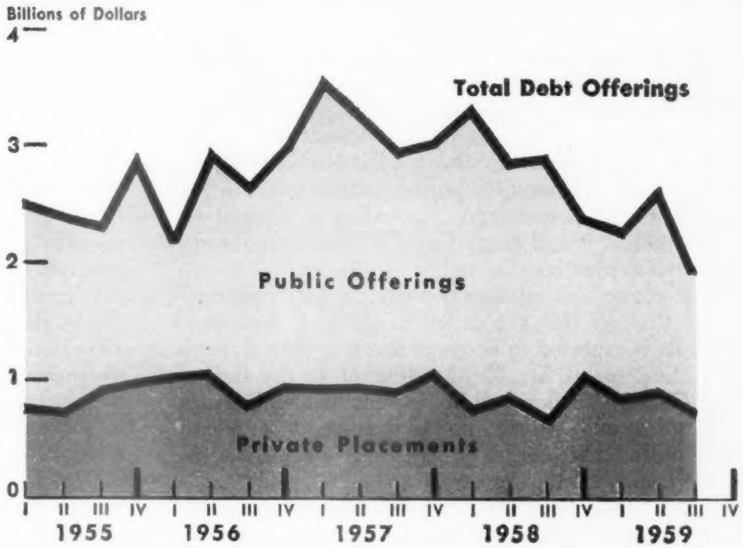
For one thing, private placements don't have to be registered with the Securities & Exchange Commission. For companies that don't want full disclosure, an SEC-free deal is a big plus. For instance, little Taylor Wines of New York, a closely held company, chose the private instead of the public route this year because it wanted to keep its financial records close to its chest.

This is a principal reason why many small companies go the private route. They can negotiate face-to-face with the lender, explain their problems to one or a few institutions rather than to many hundreds through a prospectus.

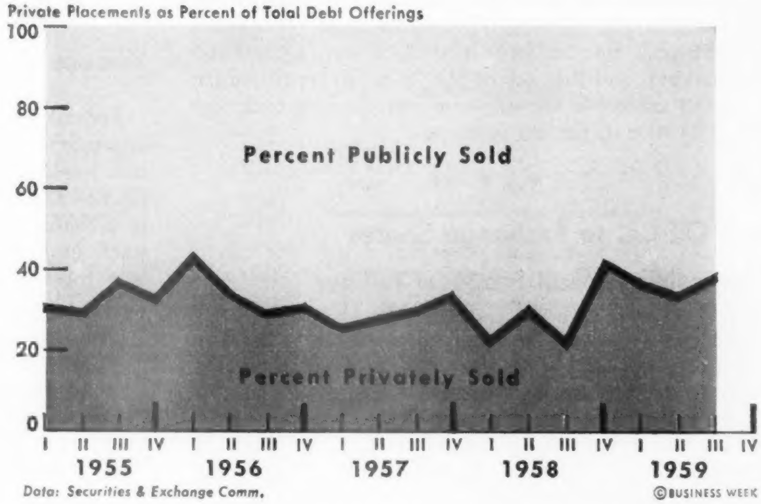
• **Cut to Measure**—The main reason, though, for taking the private route is that you can tailor your arrangements. Take the case of Ryder System, Inc., the rapidly growing Miami trucking and truck leasing company.

When Ryder a few years ago made its move into the big-time, its debt

Direct placements have slowed along with over-all borrowing . . .



. . . But as a percent of all debt offerings, they have gained slightly



Data: Securities & Exchange Comm.

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paper was an unwieldly pyramid held by a number of institutions. Then, Massachusetts Mutual and the First National Bank of Boston put the line's financial house in order. Ever since, as Ryder has expanded, Massachusetts Mutual has been ready to rewrite its loan agreement with the trucking company to adjust to its growth program.

• **Heaviest Users**—At present, the finance companies, with their constant hunger for long-term funds, are the busiest travelers of the private route. But there is a wide variety of borrowers.

Some industries and individual companies are running into trouble raising funds, including the smaller airlines and some textile and furniture companies.

Some of these companies may not be able to place their debt. But lenders—perhaps wistfully—say they sense that next year may be a big one for private deals. They acknowledge that corporate cash flow is high, that many companies can finance through retained earnings and depreciation. But they feel the expected spurt in capital expenditures may bring many deals to them. **END**

In Finance

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U. S. Gold Fell $1.1-Billion in 1959; Slower Decline Expected This Year

The U. S. lost another $1.1-billion from its gold stock in 1959, which puts the total U. S. store of gold (amounting to about half the free world's supply) at $19.4-billion, the lowest since 1940. **As in past periods, the biggest buyer of gold by far was the United Kingdom—which prefers to hold a substantial portion of its reserves in gold instead of foreign exchange.** According to Federal Reserve statistics, it had bought over $350-million through the end of September.

Most economists predict the decline will continue—despite the fact that the deficit in the U. S. balance of payments is expected to be lower this year than it was in 1959. **One expert, Dr. Roy L. Reierson of the Bankers Trust Co., says the loss will be between $500-million and $1-billion, assuming there's no "general loss of confidence in the dollar."** If that happened, Reierson predicts, the decline could be much greater.

Such a "crisis of confidence," however, is considered to be unlikely. Just this week, for example, the Swiss Bank Corp., one of the most influential of the Swiss banks, issued a report on "Why we should trust the dollar." The bank abruptly rejects the notion the dollar is now a "soft" currency, describes the U. S. gold loss of the last two years (about $3.4-billion) as a "temporary disturbance." But the Swiss bankers do warn against any complacency, and they advise the U. S. "to try to induce a contrary current in the waters of international exchange and to balance its foreign payments."

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Pure Oil Co. to Exchange Shares In Acquiring Small Producer-Refiner

The buyer's market in small oil producers, who now find themselves hard-pressed to sell their crude, produced another deal this week. Pure Oil Co. said it plans to purchase the assets of Woodley Petroleum Co. in an exchange of 1.4 shares of Pure Oil stock for each of Woodley's 852,772 shares outstanding. Woodley stockholders will vote on the acquisition Mar. 23.

Purchase of Woodley marks another step by Pure Oil to develop its crude oil production and reserves, which oilmen judge are not large in relation to Pure's requirements. Woodley is primarily a producing company, with oil wells mostly situated in Texas and Saskatchewan—oil from the low-cost Canadian fields can be imported free of quota.

Oil analysts say Pure Oil not only gains additional reserves and an increase in its import quota but also that it has worked out a favorable exchange of shares. A few years ago, when the oil industry was riding a crest, small companies such as Woodley weren't too interested in being acquired by bigger companies. Now their crude markets have dried up, and a number of them have put their companies on the block at what one stock analyst calls "bargain" prices.

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New Issues by Finance Companies Extend Non-Callable Feature to Eight Years

In an 11th hour move, two major finance companies this week wrote in eight-year non-callable features on their debt offerings in order to assure their success in the nervous bond market. CIT Financial Corp. brought to market $75-million of debentures due in 1980 at 98.46 to yield 5¼% to maturity. Commercial Credit Co. offered 5¼% $50-million notes due in 1980. Underwriters said both got off well—principally because of the eight-year non-call feature.

Originally, both issues had five-year non-calls, which meant that investors would be protected at least until 1965 from having the issues called. **But CIT found that the probable reception for its planned coupon was questionable and over the weekend its underwriters, headed by Dillon, Read & Co., hammered out the eight-year non-call.** The debentures are now callable after 1968 at 101.75, scaled down to par after 1975.

Commercial Credit was forced to go along, partly because it is regarded as being in the same league with CIT, and could not get away with less. Its notes are callable after an eight-year wait at 103.50.

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Finance Briefs

Federal Pacific Electric Co., a medium-sized ($63-million sales in fiscal 1959) producer of electrical switchgear, this week offered to acquire all the common stock of **Cornell-Dubilier Electric Corp.** (1958 sales: $26-million) in exchange for a new class of 5½% convertible preferred stock in Federal Pacific. If 80% of C-D shareholders vote for the deal, the stock will be tax-free. Federal Pacific already controls about 25% of C-D's stock.

Associates Investment Co., nation's fourth largest sales finance company, this week broadened its activity by acquisition of **Purchase Plans, Inc.**, at a cost "in excess of $20-million." Purchase Plans, a subsidiary of the Weatherhead Co. of Cleveland, is a specialist in financing oil and gas equipment, farm machinery, and steel structures. A major part of its operations is financing buildings produced by Stran-Steel division of National Steel Corp.

West Indies Sugar Corp. this week became **the first U. S. sugar company to call it quits in Cuba since Fidel Castro came to power.** The producer announced plans for a "complete liquidation," chiefly because profit margins on its Cuban operations are shrinking, rental fees for land are way off, and the company faces expropriation of its sugar lands. In 1959, per share earnings were 54¢, compared to $5.76 in 1957. Stockholders vote Feb. 4.

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The Lesson the Steel Strike Taught

It's often hard to tell who won a strike. It's usually much easier to tell who lost one.

In the case of the steel dispute—which reached a long overdue settlement this week—the industry certainly seems to be a loser. It started last June holding practically every high card in the deck, with the solid support of its customers and the tacit endorsement of the government for its insistence on a non-inflationary settlement. It wound up —after taking a four-month strike—making concessions that almost surely would have been more than enough to avert the walkout had they been offered in the beginning.

And certainly, the country as a whole also has been a heavy loser. It has suffered the disruption, unemployment, and lost production of a punishing strike in a basic industry without gaining anything at all to compensate for its injuries. Indeed, to the extent that the cost of the settlement eventually is passed along in the form of higher prices for steel, the public will pay the bill.

Now that the dispute is settled, there will be a tendency to forget the whole thing as soon as possible. This would be a great mistake. For the one lesson that emerges clearly from the unhappy record of the past six months is that the basic labor law of the U. S. badly needs overhauling. In major industries, such as steel, the power of the industry and the power of organized labor are so great and so equally matched that the two antagonists can wound the country far more deeply and far sooner than they can wound each other. For the protection of the public there must be some provision to keep labor and management from fighting their battles to the point of exhaustion while the country suffers.

It is fortunate that this overhaul of the labor laws need not be undertaken in the emergency atmosphere of a renewed strike in steel. There is an opportunity now to deal with the problem thoughtfully and thoroughly—perhaps through the mechanism of a commission appointed by the President or set up by Congress.

Such a commission probably should not try to bring in proposals for legislation this year. With a Presidential election coming up, 1960 is likely to be a bad time to write a new law. What should be done is to start the study now so that carefully considered proposals will be ready for the new Administration that takes office next January.

It is vitally important that the government should make the most of this opportunity instead of sweeping the problem under the rug until another crisis arrives. And it behooves both labor and management to put their minds on the problem of deciding what recommendations they would like to make for dealing with this situation. If they fail to face up to the necessity for setting up a better mechanism for regulating their conflicts, they will have no cause to complain of the solution that finally is imposed.

To Stop Inflation

The settlement in steel—and the inflationary worries it raises—give fresh point to the staff report on Employment, Growth, and Price Levels, prepared by the Joint Economic Committee of Congress under the direction of Otto Eckstein (BW—Jan.2'60, p61).

The Eckstein study (and the steel settlement) should bury once and for all the notion that inflation is basically a simple phenomenon that can be explained by the old saw about "too much money chasing too few goods." Excess demand may cause some inflations, but the Eckstein report offers evidence that recent U. S. inflation has been caused, not by excess demand, but by a combination of unstable output, the power of big business and big labor, and continuous upcreep in the prices of services.

Attacking this kind of inflation, as the Administration has done, with the present set of policy tools—with heaviest emphasis on general monetary policy—has been, according to the Eckstein report, "the major cause for the slowdown in growth"—a slowdown that, even so, did not produce price stability. At the same time, the Eckstein report slashes at those Democrats, whose favorite theorist is Leon Keyserling, who believe that promoting faster growth will suffice to halt inflation.

The Eckstein report, instead, recommends using an arsenal of weapons designed to hit the specific causes of the type of inflation we have been suffering. To deal with instability of production—caused by huge shifts in demand upon particular sectors—the report recommends selective controls, especially consumer credit controls, that hit the area of disturbance, rather than a different sector, as general controls are likely to do. To attack power over prices, the report favors a vigorous antitrust program and a steady reduction in tariffs. For long-run growth, the report makes as its "single most important recommendation" heavier federal investment in education.

On all these measures, the Eckstein report is clearly not going to be the last word. The merits of some of its specific proposals are highly debatable. But Eckstein and his staff deserve a vote of thanks for providing a work of analysis which should raise the level of debate on this most crucial economic problem of our time.

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